

MEDSHIELD MEDICAL SCHEME

Registration Number: 1140

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2018

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The reports and statements set out below comprise the annual financial statements presented to the members:

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MEDSHIELD MEDICAL SCHEME

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

for the year ended 31 December 2018

The Trustees of the Scheme are responsible for the preparation, integrity, and fair presentation of the annual financial statements of Medshield Medical Scheme (Scheme/Medshield). The annual financial statements presented on pages 30 - 91 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Medical Schemes Act, 131 of 1998 as amended, and include amounts based on judgements and estimates made by management.

The Trustees consider that in preparing the annual financial statements of the Scheme, management has used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. Furthermore International Financial Reporting Standards (IFRS) and Council for Medical Schemes (CMS) guidelines that they consider to be applicable have been followed.

The Trustees are satisfied that the information contained in the annual financial statements fairly presents the results of operations and cash flows for the year and the financial position of the Scheme at year end.

The Trustees are also responsible for the accuracy of information included in the Annual Financial Statements and its consistency with the annual financial statements. The Trustees are responsible for ensuring that accounting records are kept. The accounting records disclose, with reasonable accuracy, the financial position of the Scheme which enables the Trustees to ensure that the annual financial statements comply with the relevant legislation.

Medshield Medical Scheme operates in a self-administered environment which is well documented and reviewed regularly by the Scheme's internal auditors during the financial period. The Scheme maintains a risk register to assess and mitigate its risks. The internal control procedures are designed to provide reasonable assurance that assets are safeguarded and the risks facing the scheme are being managed.


The going concern basis has been adopted in preparing the annual financial statements. The Trustees have no reason to believe that the Scheme will not be a going concern in the foreseeable future, which assumption is supported by forecasts and available cash resources.

The Scheme's external auditors, PricewaterhouseCoopers Inc., are responsible for auditing the annual financial statements in terms of International Standards on Auditing and their report is presented on pages 26 -29. PricewaterhouseCoopers Inc. have unrestricted access to all financial records and related data, including minutes of all Board of Trustees, Board Sub-Committees and Executive Committee meetings. The Principal Officer and management believe that all representations made to the independent auditors during their audit were accurate and appropriate.

The annual financial statements were approved by the Board of Trustees on 25 April 2019 and are signed on its behalf:


Mr. Charles Akeroyd
Chairperson : Board of Trustees


Mrs. Antea Fourie-van Zyl
Trustee


Mr. Thoneshan Naidoo
Principal Officer

25 April 2019

MEDSHIELD MEDICAL SCHEME

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

for the year ended 31 December 2018

Medshield Medical Scheme is committed to the principles and practices of fairness, transparency, independence, responsibility, integrity and accountability in all dealings with its stakeholders. The Board of Trustees conducts all its affairs according to ethical values and within a recognised governance framework. The affairs of the Scheme are managed in accordance with the rules of the Scheme and also adhere to all aspects of governance as required by the Medical Schemes Act 131 of 1998, as amended. The Board is also committed to the principles of the Code of Corporate Practices and Conduct as set out in the King Report on Governance.

Board of Trustees

The Board of Trustees consists of member representatives who are nominated and elected by the members of the Scheme, and co-opted members who are appointed by the Board of Trustees for their skills and expertise. The Board meets at least once a quarter during the year and monitors the performance of the Scheme. The Board's performance and that of its Sub-Committees are appraised annually against agreed terms of reference. The Scheme is self-administered and all administration matters are under the direct control of the Board of Trustees. The Board has oversight over a range of key issues and ensures that discussions of policy, strategy and performance are critical, informed and constructive.

Risk Management and Internal Controls

Risks are identified, placed on a risk register and regularly reviewed by management. The risks are rated, based on likelihood of materialising and the likely impact on the Scheme. Specific strategies and/or mitigation processes are set in place to deal with these risks.

The Scheme maintains internal controls and systems designed to provide reasonable assurance about the integrity and reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability for its assets. Such controls are based on established policies and procedures and are implemented by qualified personnel with appropriate segregation of duties. The Board also concludes performance agreements annually with management to evaluate their performance and compliance with existing control measures.

The Board has appointed an Audit, Risk and Compliance Committee, whose duty it is to assess the risk register and mitigating plans and actions implemented to mitigate the risks. The Audit, Risk and Compliance Committee reports to the Board of Trustees independently.



Mr. Charles Akeroyd
Chairperson : Board of Trustees



Mrs. Antea Fourie-van Zyl
Trustee



Mr. Thonshan Naidoo
Principal Officer

25 April 2019

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

1 Review of 2018

1.1 Brief Synopsis of the year under review

The Board of Trustees ("the Board") is responsible for governing Medshield Medical Scheme ("the Scheme") in accordance with the Medical Schemes Act 131 of 1998 ("the Act") and the Scheme rules. The purpose of the Board Report is to inform the Scheme Members and Stakeholders on how the Board has overseen the management of the Scheme.

2018 marked the 50th year of Medshield's existence. As a not-for-profit entity, the Scheme continues to place members at the heart of its business by protecting them from financial burdens when they face routine or even catastrophic health events and by guiding them to the best quality healthcare outcomes. At the reporting date, 165 401 beneficiaries (82 089 members) entrust their health, wellbeing and financial security to the Scheme.

2018 was characterised as a challenging environment for the entire private healthcare industry in South Africa, with inflation in the costs of healthcare, driven by a number of factors which included:

- a) high annual tariff increases of service providers;
- b) the impact of the increase in VAT from 14% to 15% effective 1 April 2018;
- c) the growing usage of new higher cost medicines (e.g. oncology medications);
- d) the adoption of new treatments and healthcare technologies (e.g. robotic procedures);
- e) the introduction of new hospitals;
- f) the increasing burden of disease;
- g) an aging population who develop chronic conditions and require essential healthcare interventions;
- h) adverse-selection by members experienced through young and healthy surplus generating members opting not to join private medical plans until they require a healthcare intervention and;
- i) members downgrading due to affordability issues.

All of these factors have had a major impact on the industry, from which the Scheme was not immune.

Importantly, the Scheme is financially sustainable and achieved a reserve ratio of 37.9% , against the statutory requirement of 25%. The higher reserve ratio reflects the Scheme's strong claims paying capability, which was confirmed by the Global Credit Ratings Agency, who have for a 12th consecutive year awarded the Scheme a AA-Credit Rating. This is the third highest rating in the industry. This, combined with an increasing growth in membership, gives comfort to our members that the Scheme remains a going concern.

The Council for Medical Schemes (CMS) conducted a routine inspection on the Scheme during 2018, and at the reporting date the Scheme is working with the Council to review unresolved matters.

2 Leadership Changes

During the year the Scheme's Principal Officer, Dr. Stanley Moloabi, tendered his resignation after having successfully led the Scheme over the past three years. After a lengthy recruitment process, the Board appointed Mr. Thonshan Naidoo as the new Principal Officer of the Scheme, effective 1 October 2018. Mr. Naidoo, who holds an MBA and MSc in Electrical Engineering, and is an accomplished Executive with over twelve years leadership and strategic experience with leading organisations in the financial and healthcare sectors. His international and local expertise supports the Scheme's vision and strategic objectives.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

3 Strategic Direction of the Scheme

The governance structures of the Scheme continued to function efficiently and effectively during 2018, with the Board and various Committees continuously monitoring and evaluating the work that is carried out by the Executive Management Team. In December 2017, the Board held a strategic session with the Executive Management and agreed on the Scheme's strategic plan for the period 2018-2020, covering the following six strategic pillars:

- Membership growth.
- High performance culture.
- Organisational efficiency.
- Service excellence.
- Financial sustainability and governance.
- Efficient Clinical Risk Management.

Considerable success was achieved in all these areas, as discussed below.

3.1 Membership Growth

The Scheme continued to grow its membership and ended the year with 82,089 principal members, compared with 78,827 in 2017. This translates to a phenomenal growth of 4.1% in a stagnant industry, and is an indication of Medshield's superior value proposition as members are selecting Medshield as the preferred medical scheme.

In 2018, 49 of the 52 strategic outputs under this pillar were completed successfully. The Principal Officer (PO) and the Executive Management Team will continue implementing strategic objectives identified for growth and the Scheme is positive that its membership will continue to grow.

3.2 High Performance Culture

For the year under review the focus of this pillar was the implementation of the IT system, continued focus on performance management and attraction and retention of talent.

28 of 34 strategic outputs under this pillar were concluded successfully.

3.3 Organisational Efficiency

This strategic pillar is the basis on which the Scheme makes business decisions and reports on its activities. During the year, the Scheme upgraded its IT, improved IT security, and made enhancements to the digital tools that would enable simpler and easier servicing for members.

24 of 26 strategic outputs under this pillar were completed successfully.

3.4 Service Excellence

The Scheme is an SABS ISO 9001 certified entity, one of only a handful of schemes with this accreditation. ISO accreditation enables a culture of continued service excellence through improving operational efficiency and service quality.

50 of 55 strategic outputs under this pillar were completed successfully.

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BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

3 Strategic Direction of the Scheme (continued)

3.5 Financial Sustainability & Governance

The objective of this strategic pillar is to control non-healthcare expenditure and ensure that members funds are used prudently. The Chief Financial Officer oversees all financial matters, including financial transactions, investments and reporting.

Over the last few years, the Scheme's strategy has been to prudently utilise reserves to benefit its members through lower contribution increases. In line with this strategy, the Scheme had budgeted a deficit of R30m for 2018. However, due to factors that are unforeseen or outside the control of the Scheme (e.g. Vat increase and lower investment income), the Scheme incurred a net deficit of R100m. After accounting for unrealised losses on the Scheme's investments incurred during the year, the Scheme recorded a total comprehensive loss of R164m. Taking into account prevailing circumstances, the Board considers to be a major achievement for which the Executive Management deserve commendation. This improved financial performance, together the Scheme's high solvency ratio, gives assurance to the members that the Scheme remains financially sustainable.

The non-healthcare expenditure (administration expenses and broker related services) as a proportion of gross contribution income (GCI) decreased marginally to 10.1% for the year under review (2017: 10.5%). This is in line with industry norms. This decrease is largely attributable to a combination of ensuring value is generated from services procured and prudent management of expenditure.

Managing the non-healthcare expenditure continues to be a focus area for the Scheme. The Principal Officer and Executive Management remain committed to pursuing further improvements in managing non-healthcare expenditure downwards on an ongoing basis, while ensuring that members' expectations continue to be met.

21 of 24 strategic outputs under this pillar were completed successfully.

3.6 Efficient Clinical Risk Management

The claims loss ratio for the year under review (healthcare expenditure as a percentage of net contributions) decreased to 95.5% in 2018 (2017: 97.8%). This has been achieved by lower healthcare expenditure due to lower utilisation rates. Hospital, medical specialists and medicine claims continue to be the most significant segments of healthcare expenditure, as the combined accounted for 76.9% [Hospital: 42.0%; Specialists: 22.2%; Medicine: 12.7%] during 2018.

21 of 24 strategic outputs under this pillar were completed successfully.

4 Sustainability and Going Concern

The Board of Trustees remains confident in the financial position of the Scheme, which as noted above, has been recognised by the Global Credit Ratings Agency award of an AA- rating, with a positive outlook. The Scheme's solvency ratio at the end of the financial year is 37.9%, well above the statutory minimum of 25% as prescribed by the Act. This is a decrease from 44.6% at the end of 2017 and in line with the Scheme's strategy to utilise historically high reserves to assist subsidising an affordable annual contribution increase for members.

It should be noted that solvency ratios naturally decline as the number of members increases.

5 Reporting

Internal reporting is validated through the Audit & Risk Committee in terms of their terms of reference.

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BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

6 Corporate Governance and Compliance

The Scheme is committed to the principles and practice of fairness, independence, openness, integrity and accountability in all dealings with its stakeholders. The Scheme endeavours to adhere to all aspects of governance as required by the Medical Schemes Act 131 of 1998. The Scheme governance structure consists the following areas:

- Strategic oversight: Board of Trustees
- Monitoring: Board Committees
- Functional oversight: Executive Management

The Board of Trustees is committed to the principles of the Code of Corporate Practices and Conduct as set out in the King Reports on Governance, and carries out its responsibility to continuously review the effectiveness and relevance of the governance structures of the Scheme. The Board of Trustees has as one of its tasks to conduct annual evaluations of the governance structures.

The committees outlined below monitor the Scheme's operations on behalf of the Board and report quarterly or on an ad-hoc basis if necessary. The committees do not assume the operational functions of Executive Management. Operations remain the responsibility of the Principal Officer and the Executive Committee.

- **Audit, Risk and Compliance Committee:** Established in accordance with the provisions of the Act, as amended. The primary responsibility of the committee is to assist the Board of Trustees in carrying out their duties relating to the Scheme's accounting policies, internal control systems, risk management and financial reporting practices. The committee consists of three Independent Members and two Trustees.

Other committees that supported the Board with overseeing monitoring are:

- Finance, Investments and Operations Committee.
- Human Capital and Remuneration Committee.
- Marketing, Product Review and Pricing Committee.
- Clinical Governance Committee.
- Legal Governance and Disputes Committee.

The Board continues to attend to various legal matters that were reported on in the previous financial year. A progress report on all legal and contractual matters is contained in section 7 of the Board of Trustees report.

The Board of Trustees continues to monitor progress on these matters.

7 Legal and Contractual Matters

The Board of Trustees and the Principal Officer are committed to ensuring that all efforts are made to conclude all outstanding legal matters expeditiously, whilst protecting the rights and interests of the Scheme and its members. The Board of Trustees and the Principal Officer are currently attending to the following legal matters of material significance:

a. Medshield/Alumni Trading

The Scheme was successful in setting aside the trademark sale agreement with Alumni trading. Alumni has been ordered to repay the R10m with costs. A liquidation order was subsequently granted due to non-payment of the award in the prescribed period. An application to convene an insolvency enquiry against Alumni has been lodged with the Master.

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for the year ended 31 December 2018

7 Legal and Contractual Matters (Continued)

b. Medshield/Calabash Health Solution & Neels Barendrecht & 4 others

The Scheme is currently awaiting the outcome of the appeal in the Calabash case. In consequence, the Scheme has not yet been able to apply for a default judgement in the amount of R46.2m and the action is still pending. The Scheme's attorneys are of the view that this action should be consolidated with the Neels Barendrecht and 4 others action.

c. Medshield/Yarona Healthcare Network

The Court ruled in the Scheme's favour in the legal matter between Medshield and Yarona Healthcare, which was subsequently appealed by Yarona Healthcare to the Supreme Court of Appeal. The appeal was dismissed with costs and the Scheme has sent a letter of demand in the amount of R15.9m. Yarona has subsequently filed an application for leave to appeal to the Constitutional Court. The Scheme has filed the Response/answering Affidavit in opposition of this Application.

d. Medshield/CM Stuart & three others (former Trustees)

In the arbitration matter against the former Trustees, an award was made in favour of the Scheme in the amount of R1m. The former Trustees subsequently filed a Notice of Appeal. The Appeal was heard in December 2018. Judgement by the Appeal Tribunal is reserved.

e. Medshield/Traffic Integrate & Medshield Distribution Services

The Action instituted against Traffic Integrated/Medshield Distribution Services (MDS) is on hold. The Scheme has requested permission from CMS to withdraw the action. The decision on this has been referred to the FSCA by the CMS.

8 Matter identified by the Auditing Professions Act, 544.

A breach of fiduciary duty by the Acting Principal Officer (APO) of the Scheme took place, which however did not result in any financial loss to the Scheme. The APO held the office of the Principal Officer from May 2018 to September 2018 and formed part of the Executive Committee of the Scheme and performed duties delegated by the Board of Trustees. He was dismissed by the Scheme for dishonesty.

9 Conclusion

The current Board is satisfied that the Scheme strategy continues to be implemented successfully and that the objectives of the Scheme are being met. These objectives include keeping proper governance structures in place to ensure that the Scheme continues to operate in a financially sustainable manner and continues to meet and service the needs and expectations of its members.

The Scheme had a challenging year, but remains financially strong to meet its obligations. The Scheme is set to continue as a going concern for the foreseeable future. The Board is confident that under the leadership of the new Principal Officer, the Scheme will continue to grow and achieve its strategic objectives.

10 Description of the Medical Scheme

10.1 Terms of Registration

Registration number: 1140

The Scheme is a not for profit open medical scheme registered in terms of the Medical Schemes Act No. 131 of 1998, as amended.

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BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

10.2 Benefit options within Medshield Medical Scheme

The Scheme offers 7 benefit options to employers and members of the public, namely :

- MediValue
- MediBonus
- MediPlus
- MediPhila
- MediSaver (*Personal Medical Savings Account*)
- MediCore
- Premium Plus (*Personal Medical Savings Account*)

10.3 Personal Members' Savings Accounts (PMSA's)

Personal medical savings constitute trust monies and are managed on the members' behalf in terms of the Scheme rules. Savings contributions are refundable upon a member enrolling in another benefit option without a personal medical savings account or another option in another medical scheme without a personal medical savings account, or in the event that a member does not enrol in another medical scheme, in which case the accumulated unutilised personal medical savings account balance is transferred to the member in terms of the Medical Schemes Act.

Following the Constitutional Court ruling in the Genesis case, the Scheme has changed the Scheme rules with regards the treatment of savings monies. Effective 1 January 2018, the Scheme rules state that the savings monies shall be kept in a Scheme account as stipulated in the Medical Schemes Act and can be utilised to fund the general business activities of the Scheme. Interest earned will be credited to the Scheme and conversely, it will not be credited to members savings accounts.

11 Risk Management

11.1 Risk Management Plan

Strategic risks are identified and placed on a risk register. The risks are rated, based on likelihood and impact on the Scheme and specific strategies or processes are put in place to deal with these risks. Medshield's management team updates the risk management plan on an ongoing basis to ensure that it is in line with the current risks of the Scheme.

11.2 Risk Transfer Arrangements

The Scheme had the following risk transfer arrangements during the year under review:

Centre for Diabetes and Endocrinology (Pty) Ltd. ("CDE")*
Netcare 911 Emergency Medical Services**

*CDE provides the Scheme (Option: MediBonus) and its members a program for diabetes, which includes consultations, blood tests and hospital admissions, once approved. Members must register at the centre to qualify for this benefit, upon which a fixed fee per member is paid. At year-end the Scheme had 209 members (2017: 232) registered at the centre. It is estimated that through the risk transfer arrangement, the Scheme has saved a potential cost of 45 hospital admissions for diabetes during 2018. Refer to Note 12 of the financial statements for the net income of risk transfer arrangements.

** Netcare provides services which include emergency telephonic assistance via health-on-line, emergency response by road or air ambulance to the scene of the accident as well as transfer of the beneficiary by road or air to the most appropriate medical facility.

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BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

11.3 Managed Care

The Scheme had the following accredited managed care arrangements during the year under review:

Domain	Service Provider
Hospital Benefit Management	- Medscheme Health Risk Solutions ("MHRS"), a division of Medscheme Holdings (Pty) Ltd. (1 October 2018). Medical Services Organisation of South Africa (Pty) Ltd. ("MSO") (until 30 September 2018).
Pharmacy Benefit Management	- Medscheme Health Risk Solutions ("MHRS"), a division of Medscheme Holdings (Pty) Ltd.
Dental Benefit Management	- Dental Information Systems (Pty) Ltd ("DENIS").
HIV / AIDS Disease Management	- LifeSense Disease Management (Pty) Ltd.

The Scheme had the following arrangements with other service providers during the year under review:

Domain	Service Provider
Optical Benefit Management	- Iso Leso Optics Ltd.
GP Network Management	- The IPA Foundation.
HIV / AIDS Medicine Benefit Management	- Pharmacy Direct (Pty) Ltd. (Designated Pharmacy Provider) .
Oncology Benefit and Network Management	- Independent Clinical Oncology Network (Pty) Ltd. ("ICON").
Radiology and Pathology Claims Auditing	- Verirad (Pty) Ltd.

11.4 Prescribed Minimum Benefits (PMBs)

The Scheme has a defined process in place whereby it analyses, verifies and adjudicates PMB claims prior to payment being effected in order to, as far as possible, prevent fraudulent and incorrectly coded claims from being paid. This process was reviewed in consultation with the Council for Medical Schemes (CMS) and was in line with the Scheme Rules and the PMB regulatory provisions as set out by CMS.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

12 Management

12.1 Board of Trustees

Attendance to Board of Trustees meetings is included below:

Member Elected Trustees	Date of Appointment	Area of Expertise	31 Jan 2018	14 Mar 2018	25 Apr 2018	08 Jun 2018	27 Jul 2018	06 Sep 2018	30 Oct 2018	28 Nov 2018
Mr. Charles Richard Akeroyd (Chairperson)	24 June 2017	Finance	N	Y	Y	Y	Y	Y	Y	Y
Mr. Seth Makhani	24 June 2017	Finance	Y	Y	Y	Y	Y	Y	Y	Y
Ms. Lethabo Sekele	24 June 2017	Strategic Management	Y	Y	Y	Y	Y	Y	Y	Y
Ms. Adelaide Ntsako Molatoli ⁽¹⁾	24 June 2017	Medical	Y	Y	N/A	N/A	N/A	N/A	N/A	N/A
Dr. Laetitia Erasmus	24 June 2017	Medical	Y	Y	Y	Y	N	Y	Y	Y
Co-opted Trustees (appointed not elected)	Date of Appointment	Area of Expertise	31 Jan 2018	14 Mar 2018	25 Apr 2018	08 Jun 2018	27 Jul 2018	06 Sep 2018	30 Oct 2018	28 Nov 2018
Mrs. Antea Fourie Van Zyl	30 November 2017	Finance	Y	Y	Y	Y	Y	Y	Y	Y
Advocate Thomas Ntsewa ⁽²⁾	10 February 2015	Legal	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Leon de Lange	12 February 2018	Legal	N/A	Y	Y	Y	Y	Y	Y	Y
Advocate Mammule Chidi	12 February 2018	Legal	N/A	Y	Y	Y	Y	Y	Y	Y
Dr. Jalaluddin Soni ⁽³⁾	12 February 2018	Medical	Y	Y	Y	Y	Y	Y	Y	Y

(1) Ms. Adelaide Ntsako Molatoli resigned effective 14 March 2018.

(2) Advocate Thomas Ntsewa's term ended on 9 February 2018.

(3) Dr Jalaluddin Soni's term ended on 9 February 2018 and he was subsequently co-opted for a second term effective 12 February 2018.

Scheme Secretariat

The Scheme has established a Scheme Secretariat responsible for providing support and advice in relation to good governance to the Scheme and its committees.

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BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

12 Management (continued)

12.2 Principal Officer

Mr. Thoneshan Naidoo was appointed to the office of Principal Officer by the Board of Trustees on the 1st October 2018.

12.3 The Registered Office of the Scheme is:

288 Kent Avenue	PO Box 4346
Ferndale	Randburg
Randburg	2125
2194	

Country of registration and domicile: South Africa

CMS Accreditation number: 1140

12.4 Investment Fund Managers during the year:

Sanlam Investment Managers (Pty) Ltd	
55 Willie Van Schoor Avenue	Private Bag X8
Bellville	Tyger Valley
7530	7536

Financial Services Provider number: 579

Allan Gray Life Limited	
1 Silo Square	PO Box 51318
V & A Waterfront	Cape Town
Cape Town	8002
8001	

Financial Services Provider number: 6663

Argon Asset Management (Pty) Ltd	
1st Floor Colinton House, The Oval	PO Box 23254
1 Oakdale Road	Claremont
Newlands	7735
Cape Town	
7700	

Financial Services Provider number: 835

Prudential Portfolio Managers (South Africa) (Pty) Ltd	
5th Floor Protea Place	PO Box 44813
40 Dreyer Street	Claremont
Claremont	7735
Cape Town	
7700	

Financial Services Provider number: 45199

Stanlib Collective Investments (RF) (Pty) Ltd	
17 Melrose Boulevard	PO Box 202
Melrose Arch	Melrose Arch
2196	2076

12.5 Investment Consultants during the year:

Investec Wealth & Management - a division of Investec Securities (Pty) Ltd	
100 Grayston Drive	PO Box 78055
Sandown	Sandton
Sandton	2146
2196	

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BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

12.6 Actuaries:

NMG Consultants & Actuaries (Pty) Ltd		Insight Actuaries & Consultants (Pty) Ltd	
411 Main Avenue Ferndale, Randburg 2125	PO Box 3075 Randburg 2125	Ground Floor, Block J Central Park 400, 16th Road Midrand 1682	Private Bag X17 Halfway House 1685

NMG completed their tenure with the Scheme on 31 August 2018. Insight Actuaries commenced on 1st August 2018

12.7 Internal Auditors:

KPMG Services (Pty) Ltd	Private Bag 9	BDO Advisory Services (Pty) Ltd	Private Bag X5
85 Empire Road Parktown 2193	Parkview 2122	1st Floor, Wanderers Office Park 52 Corlett Drive Illovo 2196	Northlands 2116

KPMG completed their tenure with the Scheme on 31 December 2018. BDO commenced on 1st January 2019.

12.8 External Auditors:

PricewaterhouseCoopers Inc.	Private Bag X36
4 Lisbon Lane Waterfall City Jukskei View 2090	Sunninghill 2157

13 Investment Strategy of the Scheme

The Scheme's long term investments are spread across four portfolio managers. These portfolio managers complement each other in terms of the structure and nature of instruments held. The Scheme is invested in bonds, equities and cash instruments as well as linked insurance policies and pooled funds in diversified portfolios with a target return of CPI+4% over a three year rolling period, consistent with the Scheme's investment strategy. This policy is reviewed annually, taking into consideration market conditions and compliance with the Medical Schemes Act. The Scheme also uses Stanlib Collective Investments to maximise the short term funds with the view of maintaining liquidity and to be able to meet the day-to-day cash requirements of the Scheme.

14 Committees

14.1 Audit, Risk & Compliance Committee

The Audit, Risk and Compliance Committee is mandated by the Scheme by means of Board approved terms of reference as to its membership, authority and duties. The committee consists of five members, three of whom are independent and not officers of the Scheme (including the Chairperson).

During the course of the year, the committee undertook the following functions under the terms of reference mandated by the Board of Trustees which stipulate the following:

- To assist the Board of Trustees in its evaluation of the adequacy and efficiency of the internal control systems accounting practices, information systems and auditing processes applied by the Scheme or its administrator in the day-to-day management of its business;
- To facilitate and promote communication and liaison regarding the matters referred to above or a related matter, between the Board of Trustees, executive principal officer and management of the Scheme;

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BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

14.1 Audit, Risk & Compliance Committee (Cont.)

- To recommend the introduction of measures which the committee believe may enhance the credibility and objectivity of financial statements and reports concerning the Scheme and
- To advise on any matter referred to the committee by the Board of Trustees.
- Oversight over the internal and external auditors including their appointments, fees, plans and performances.
- Oversight over the risk management, governance and compliance processes.

The Audit, Risk and Compliance Committee comprised:

- Independent: J. Prinsloo (Chairperson) (Appointed 01 July 2016)
- Independent: D van der Nest (Appointed 01 January 2016)
- Independent: N Mbhele (Appointed 01 January 2017)
- Trustee: A. Fourie-van Zyl (Appointed 12 July 2017)
- Trustee: S. Makhani (Appointed 12 July 2017)

Audit, Risk & Compliance Committee meeting attendance:

Member	23 Mar 2018	17 Apr 2018	17 Jul 2018	06 Nov 2018
J. Prinsloo (Chairperson)	Y	Y	Y	Y
D. van der Nest	Y	N	Y	Y
N. Mbhele	Y	Y	Y	Y
A. Fourie-van Zyl	Y	Y	Y	Y
S. Makhani	Y	N	Y	Y

The Principal Officer, Executive: Operations, Chief Financial Officer and Audit, Risk & Compliance Specialist of the Scheme as well as the Internal and External Auditors are invited to attend all Audit, Risk and Compliance Committee meetings of the Scheme and have unrestricted access to the chairperson of the committee.

14.2 Clinical Governance Committee

The Clinical Governance Committee is a committee of the Board of Trustees (BoT) accountable to the BoT for ensuring that there are effective governance systems to safeguard and improve the quality and safety of clinical care provided to the members.

The Clinical Governance Committee comprised:

- Trustee: A. Molatoli (Chairperson) (Appointed 12 July 2017 and resigned effective 14 March 2018)
- Trustee: Dr.L. Erasmus (Chairperson) (Appointed 12 July 2017)
- Trustee: Dr.J. Soni (Appointed 14 March 2018)
- Trustee: L. de Lange (Appointed 14 March 2018)
- Independent: L. Khangala (Appointed 01 January 2017)
- Independent: Dr. M. Mbokota (Appointed 31 January 2018)

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BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

14.2 Clinical Governance Committee (Continued)

Clinical Governance Committee meeting attendance:

Member	01 Mar 2018	09 Mar 2018*	22 May 2018	03 Aug 2018*	16 Aug 2018	08 Nov 2018
A. Molatoli (Chairperson)	Y	Y	N/A	N/A	N/A	N/A
Dr. L. Erasmus (Chairperson)	Y	Y	Y	Y	Y	Y
Dr. J. Soni	Y	Y	N	Y	Y	Y
L. de Lange	N/A	N/A	Y	Y	Y	Y
L. Khangala	Y	Y	Y	Y	Y	Y
Dr. M. Mbokota	Y	Y	Y	Y	Y	Y

* The meetings of 09 March & 03 August 2018 were joint Marketing and Clinical Governance meetings.

14.3 Human Resources & Remuneration Committee

The Human Resources & Remuneration Committee is a committee of the Board of Trustees (BoT), accountable to the BoT, and authorised to take such steps as are in its opinion appropriate and reasonable to give effect to the Scheme's remuneration policies (including trustee remuneration) and strategies determined by the BoT subject to such conditions as may be imposed by the BoT from time to time.

The Human Capital & Remuneration Committee comprised:

- Trustee: L. Sekele (Appointed 12 July 2017)
- Trustee: Adv. T. Ntsewa (Appointed 22 September 2017 and term ended on 09 February 2018)
- Trustee: Adv. M. Chidi (Appointed 14 March 2018)
- Independent: J. Jeftha (Chairperson) (Appointed 01 January 2016)
- Independent: P. Marais (Appointed 01 January 2017)

HR & Remuneration Committee meeting attendance:

Member	26 Jan 2018	27 Mar 2018	17 May 2018	12 Jul 2018	12 Oct 2018
J. Jeftha (Chairperson)	Y	Y	Y	Y	Y
Adv. M. Chidi	N/A	Y	Y	Y	Y
Adv. T. Ntsewa	Y	N/A	N/A	N/A	N/A
L. Sekele	Y	Y	Y	Y	Y
P. Marais	Y	Y	Y	Y	Y

14.4 Marketing, Product Review & Pricing Committee

The Marketing, Product Review & Pricing Committee is a committee of the Board of Trustees (BoT), tasked with assisting the BoT in discharging its duties specifically on issues related to product design, pricing, marketing and new business.

The Marketing, Product Review & Pricing Committee comprised:

- Trustee: L. Sekele (Chairperson) (Appointed 12 July 2017)
- Trustee: A. Molatoli (Appointed 12 July 2017 and resigned effective 14 March 2018)
- Trustee: Adv. M. Chidi (Appointed 14 March 2018)
- Independent: M Hulme (Appointed 26 October 2017)

Marketing, Product Review & Pricing Committee meeting attendance:

Member	21 Feb 2018	09 Mar 2018*	23 May 2018	20 Jul 2018	03 Aug 2018*	22 Aug 2018	24 Oct 2018
L. Sekele (Chairperson)	Y	Y	Y	Y	Y	Y	Y
A. Molatoli	Y	Y	N/A	N/A	N/A	N/A	N/A
Adv. M. Chidi	N/A	N/A	Y	Y	Y	Y	Y
M. Hulme	Y	Y	Y	Y	Y	Y	Y

* The meetings of 09 March & 03 August 2018 were joint Marketing and Clinical Governance meetings.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

14.5 Finance, Investment & Operations Committee

The Finance, Investments & Operations Committee is a committee of the Board of Trustees (BoT), accountable to the BoT, tasked with assisting the BoT in fulfilling its oversight responsibility in matters relating to the Scheme's finances, investments and operations, including operational arrangements with third party service providers.

Finance, Investment & Operations Committee comprised:

- Trustee: A. Fourie-van Zyl (Chairperson) (Appointed 12 July 2017)
- Trustee: S. Makhani (Appointed 12 July 2017)
- Trustee: Dr. J. Soni (Appointed 14 March 2018)
- Independent: L. Makaula (Appointed 01 February 2018)

Finance, Investment & Operations Committee meeting attendance:

Member	06 Mar 2018	05 Apr 2018	16 May 2018	17 Aug 2018	16 Nov 2018
A. Fourie-van Zyl (Chairperson)	Y	Y	Y	Y	Y
S. Makhani	Y	Y	Y	Y	Y
Dr. J. Soni	N/A	Y	Y	Y	Y
L. Makaula	Y	Y	Y	Y	Y

14.6 Legal, Governance & Disputes Committee

The Legal, Governance & Disputes Committee is a committee of the Board of Trustees (BoT) and has amongst its purposes to serve as an adjudication body over cases that shall have been referred to it by the Executive Committee or its committee tasked with receiving and adjudicating complaints, grievances and disputes brought to their attention by members of the Scheme, the Council for Medical Schemes (CMS) or any other person or body aggrieved in its dealings with the Scheme or its service providers.

The Disputes Committee comprised:

- Independent: J. Moselehi (Chairperson) (Appointed 01 February 2018)
- Independent: L. Khangala (Appointed 01 January 2017)
- Trustee: Dr. L. Erasmus (Appointed 22 February 2015)
- Trustee: Dr. J. Soni (Appointed 12 July 2017 and resigned 14 March 2018)
- Trustee: L. de Lange (Appointed 14 March 2018)

Disputes Committee meeting attendance:

Member	08 Feb 2018	04 May 2018	06 Jul 2018	25 Oct 2018
J. Moselehi (Chairperson)	Y	Y	Y	Y
L. Khangala	Y	Y	Y	Y
Dr. L. Erasmus	Y	Y	Y	Y
Dr. J. Soni	Y	N/A	N/A	N/A
L. de Lange	N/A	Y	N	Y

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES REPORT for the year ended 31 December 2018

15 Quantitative review of activities

2018	MediPlus	MediValue	MediBonus	MediPhila	MediCore	MediSaver	Premium Plus	Total
Number of members at end of accounting year (n)	23 978	36 382	3 795	4 267	4 952	6 348	2 367	82 089
Average number of members for the accounting year (n)	24 583	34 984	3 929	3 807	5 141	6 548	2 463	81 456
Pensioner ratio (beneficiaries >65 years)	17.95%	6.93%	34.84%	2.88%	49.64%	41.93%	60.88%	18.07%
Number of beneficiaries	53 695	69 433	7 090	8 221	10 551	12 312	4 099	165 401
Average age of members	53.88	42.67	60.82	38.01	63.70	61.57	68.38	50.01
Average net contributions per member per month	4 250	2 374	6 471	1 588	3 736	3 481	5 312	3 365
Average net contributions per beneficiary per month	1 889	1 243	3 438	840	1 741	1 789	3 052	1 663
Average net claims incurred per member per month	3 972	2 151	6 647	1 205	3 725	3 654	6 131	3 213
Average net claims incurred per beneficiary per month	1 765	1 126	3 532	637	1 736	1 878	3 522	1 589
Average non-healthcare expenses per member per month	353	353	353	353	353	353	353	353
Average non-healthcare expenses per beneficiary per month	175	175	175	175	175	175	175	175
Average accumulated funds per member at 31 December	16 623	16 623	16 623	16 623	16 623	16 623	16 623	16 623
Beneficiaries per member at 31 December	1.24	0.91	0.87	0.93	1.13	0.94	0.73	1.01
Net claims as percentage of net contribution	93%	91%	103%	76%	100%	105%	115%	95%
Non-healthcare expenses as percentage of net contributions	9%	15%	6%	21%	9%	10%	6%	10%

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES REPORT for the year ended 31 December 2018

15 Quantitative review of activities

2017	MediPlus	MediValue	MediBonus	MediPhila	MediCore	MediSaver	Premium Plus	Total
Number of members at end of accounting year (n)	25 218	31 090	4 266	3 276	5 469	6 870	2 638	78 827
Average number of members for the accounting year (n)	26 023	28 836	4 433	2 245	5 636	7 108	2 728	77 008
Pensioner ratio (beneficiaries >65 years)	16.50%	6.97%	32.86%	2.17%	47.71%	40.58%	59.59%	18.74%
Number of beneficiaries	57 223	58 968	8 085	6 033	11 879	13 443	4 639	160 270
Average age of members	53.06	42.78	59.94	37.71	62.78	60.95	67.62	50.59
Average net contributions per member per month	3 845	2 148	5 713	1 449	3 417	3 162	4 727	3 184
Average net contributions per beneficiary per month	1 685	1 125	2 998	763	1 562	1 609	2 677	1 549
Average net claims incurred per member per month	3 578	1 977	5 873	1 062	3 695	3 552	5 612	3 116
Average net claims incurred per beneficiary per month	1 568	1 036	3 082	560	1 689	1 808	3 179	1 516
Average non-healthcare expenses per member per month	346	346	346	346	346	346	346	346
Average non-healthcare expenses per beneficiary per month	169	169	169	169	169	169	169	169
Average accumulated funds per member at 31 December	17 736	17 736	17 736	17 736	17 736	17 736	17 736	17 736
Beneficiaries per member at 31 December	1.27	0.90	0.90	0.84	1.17	0.96	0.76	1.03
Net claims as percentage of net contribution	93%	92%	103%	73%	108%	112%	119%	98%
Non-healthcare expenses as percentage of net contributions	9%	16%	6%	23%	10%	11%	7%	11%

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

16 Result of Operations

The results of the Scheme are set out in the annual financial statements. The Scheme is in a sound financial position and during the year there were no changes to operations of the Scheme in terms of contributions raisings and collections and the assessment and payment of claims.

17 Accumulated Funds Ratio (Solvency Ratio)

	2018 R'000	2017 R'000
Total members' funds per the statement of financial position	1 417 942	1 573 884
Less:	(127 602)	(208 749)
Investment reserves	(63 924)	(208 086)
Reclassification (IFRS 9 adjustment)	(79 140)	-
Fair value adjustment on financial assets held at fair value through profit and loss	16 126	-
Accounts held in escrow	(663)	(663)
Accumulated funds per Regulation 30	1 290 341	1 365 135
Gross Contributions	3 407 220	3 059 015
Accumulated funds ratio (including savings contributions)	37.9%	44.6%
Accumulated funds ratio (excluding savings contributions)	39.2%	46.4%

17.1 Reserves

Movements in the reserves are set out in the statement of changes in funds and reserves in the annual financial statements. The reduction in the reserve ratio year-on-year is mainly attributable to the membership growth that the Scheme experienced in 2018. Furthermore, the Scheme utilised reserves on a planned basis to reduce the impact of contribution increases.

17.2 Outstanding Claims

Movements in the outstanding claims provision are set out in note 7 to the annual financial statements. There have been no unusual movements that should be brought to the attention of the members of the Scheme.

18 Actuarial Services

The Scheme's actuaries have been consulted and their inputs relied upon in the determination of the contribution and benefit levels and in the calculation of the outstanding claims liability of the Scheme ("IBNR").

19 Non Compliance with the Medical Schemes Act and Regulations

19.1 Contributions Not Received Within The Time Stipulated By The Act

Nature of the non-compliance

Section 26(7) of the Act states that: All subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becomes due.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

19 Non Compliance with Medical Schemes Act and Regulations (Continued)

19.1 Contributions Not Received Within The Time Stipulated By The Act (Continued)

Impact

Risk of paying claims where no contributions were received or possible bad debts as a result of not collecting the contributions on time.

Cause of the non-compliance

There were some instances noted where the contributions were not received within three days of becoming due.

Corrective course of action

Strict credit control procedures are in place to prevent loss to the Scheme. Members and employers are continuously reminded to submit payment and non-payment will result in the suspension of the account and no claims are paid until the account is brought up to date.

19.2 Loss Making Options

Nature of the non-compliance

Section 33(2) of the Act states: The Registrar shall not approve any benefit option under this section unless the Council is satisfied that such benefit option -

- a. includes the prescribed benefits;*
- b. shall be self-supporting in terms of membership and financial performance;*
- c. is financially sound; and*
- d. will not jeopardise the financial soundness of any existing benefit option within the medical scheme.*

Six of the Scheme's options incurred a net healthcare result deficit.

Impact

Benefit options will not be self-sustainable.

Cause of the non-compliance

A significant contribution to the net healthcare result was that the contribution income was worse than expected. The Scheme had budgeted for a deficit which would explain why some of the options are loss making. The reason for this is that it is part of the Scheme's strategy to utilise reserves to subsidise contribution increases.

Corrective course of action

The Scheme, in conjunction with the Scheme's actuaries, constantly reviews the performance of these options, and after taking all factors into consideration, contributions and benefits are adjusted accordingly on an annual basis in the normal course of business. Furthermore, the Scheme undertook a review in early 2018 to specifically address Scheme sustainability and a significant part of this work will encompass loss making options. In addition, the Scheme has implemented a project in early 2018 to improve the claims loss ratio, which has had a significant positive impact on loss making options. The Scheme expects improved performance in 2019, which will have a positive impact on loss making options.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

19 Non Compliance with Medical Schemes Act and Regulations (Continued)

19.3 Direct Or Indirect Investments In Other Medical Scheme Administration Companies & Participating Employers

Nature of the non-compliance

Section 35(8) of the Act states – A Medical Scheme shall not invest any of its assets in the business of any other medical scheme or administrator or employer who participates in the medical scheme.

Impact

Direct equity investment holdings in holding companies of medical scheme administrators.

Cause of the non-compliance

This is as a result of the mandate given to the asset managers by the Scheme, who have the discretion to invest in any approved instrument, in terms of Regulation 30.

Corrective course of action

The Scheme has obtained exemption from the Council for Medical Schemes for this non-compliance. This exemption expires on 1st May 2019.

19.4 Claims payments made in excess of 30 days since receipt thereof

Nature of the non-compliance

Section 59(2) of the Act states : “A medical scheme shall, in the case where an account has been rendered, subject to the provisions of this Act and the rules of the medical scheme concerned, pay to a member or a supplier of service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the medical scheme.”

Impact

Members might be charged interest on the late payment of accounts by the healthcare professionals.

Cause of the non-compliance

These instances normally arise mainly due to queries on the accounts submitted and further investigation is required to ensure that claims are processed. In these exceptional cases claims were paid later than 30 days after date of submission. However in 2018, this was exacerbated by the change in managed care service providers (hospital benefit management) on 1 October 2018, which effectively delayed the processing of claims, thus causing payment to exceed 30 days.

Corrective course of action

The Scheme continuously encourages members and providers to submit the required supporting documentation as early as possible. The Scheme is continuously implementing new controls to manage the payments of claims in excess of 30 days. The change to a new service provider will be fully implemented in 2019.

19.5 Encumbered Assets

Nature of the non-compliance

Section 35(6) of the Act states: “A Medical Scheme shall not encumber its assets”.

Impact

Cash and cash equivalents are encumbered as guarantees in respect of the deposit made to the South African Post Office.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

19 Non Compliance with Medical Schemes Act and Regulations (Continued)

19.5 Encumbered Assets (Continued)

Cause of the non-compliance

The deposit was required by the South African Post Office in order to conduct business with them.

Corrective course of action

The Scheme has obtained exemption from the Council for Medical Schemes for this non-compliance. This exemption expires on 31 December 2018.

19.6 Netcare 911 capitation agreement for the provision of emergency medical services

Nature of the non-compliance

Regulation 7 defines a Designated Service Provider ("DSP") and Prescribed Minimum Benefits ("PMBs"):

Designated Service Provider means a health care provider or a group of providers selected by the medical scheme concerned as the provider or providers to provide its members diagnosis, treatment and care in respect of one or more prescribed benefit conditions;

Prescribed Minimum Benefit (PMB) condition means a condition contemplated in the Diagnosis and Treatment Pairs listed in Annexure A or any emergency medical condition;

Section 15A(1) If a medical scheme provides benefits to its beneficiaries by means of a managed health care arrangement with another person -

- a. the terms of that arrangement must be clearly set out in a written contract between parties;*
- b. with effect from 1 January 2004, such arrangement must be with a person who has been granted accreditation as a managed health care organisation by the Council; and*
- c. such arrangement must not absolve a medical scheme from its responsibility towards its members if any other party to the arrangement is in default with regard to the provisions of any service in terms of such agreement.*

Impact

On or about June 2015 the Scheme entered into a contract with Netcare 911 for the provision of emergency medical services based on a capitated arrangement and in terms of the agreement Netcare was appointed as a DSP of the Scheme. CMS issued a ruling on 22 December 2017 whereby the agreement is sanctioned (not valid) by regulation 8 and 15F of the Act. The contract expired on 31 December 2017. The Scheme is contracted with Netcare 911 on a monthly basis during 2018, while a new arrangement is being formulated.

Cause of the non-compliance

- a) In terms of the agreement, the Scheme required the call centre of Netcare 911 to be utilised for authorisations, which entails provisions of non-PMB's and therefore, the Scheme cannot appoint Netcare 911 as a DSP;
- b) In terms of the agreement being a capitation agreement, regulation 15F prohibits the Scheme from entering into a capitation agreement unless the transfer of the risk is to an accredited managed health care organisation and Netcare 911 is not accredited.

Corrective course of action

The Scheme acknowledged the Registrar's ruling and informed CMS that it would abide by it. The Scheme engaged with the CMS with regard to the matter and a way forward is being determined on how the Scheme will implement business process changes to ensure compliance with the Act going forward.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

19 Non Compliance with Medical Schemes Act and Regulations (Continued)

19.7 *Netcare 911 capitation agreement for the provision of international travel benefits*

Nature of the non-compliance

Section 20(2) of the Act states -No medical scheme shall purchase any insurance policy in respect of any relevant health service other than to re-insure a liability in terms of section 26(1)(b).

Impact

CMS issued a ruling on 28 September 2018 whereby medical scheme benefits cannot include non-healthcare benefits such as repatriation of remains, compassionate emergency visit, and so on, in contravention of the definition of the business of a medical scheme, as referred to in section 1 of the Act.

Cause of the non-compliance

In terms of the agreement, the Scheme offers international travel benefits to members on the MediBonus and Premium Plus options, such as repatriation of remains.

Corrective course of action

The Scheme acknowledged the Registrar's ruling and informed CMS that it would abide by it. The Scheme will remove international travel benefits from its benefits in 2019 in accordance with the CMS ruling.

19.8 *Donations*

Nature of the non-compliance

Section 30(1)(a) of the Act states -A medical scheme may in its rules make provision for donations to any hospital, clinic, nursing home, maternity home, infirmary or home for aged persons in the interest of all or some of its beneficiaries.

Impact

In July 2018, the Scheme made two donations in the amount of R25 000 each; the first to Boredi English Medium Primary School and the second to Thohoyandou Victim Empowerment Trust. Both of these donations were for corporate social investment purposes.

Cause of the non-compliance

The two donations were to organisations that do not meet the qualifying criteria for donations in terms of the Act.

Corrective course of action

The Scheme will only make donations to establishments that meet the qualifying criteria in terms of the Act.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES REPORT

for the year ended 31 December 2018

19 Non Compliance with Medical Schemes Act and Regulations (Continued)

19.9 Claims paid but no contribution raised

Nature of the non-compliance

The Act does not expressly state that no benefit will be paid without first receiving a contribution but the definition of the "business of a medical Scheme" infers a condition to the entitlement by stating that "the business of undertaking liability in return for a premium or contribution". Similarly, Rule 5 of the Scheme's rules infers the same condition, stating "the business of undertaking liability in return for a premium or contribution".

Impact

There were claims paid to members for which no contribution had been received in the amount of R89 838, relating to 66 claims. In most cases, the error was caused by an option change and in approximately 80% of the cases, the claim was subsequently recovered through a reversal or through the raising of a contribution.

Cause of the non-compliance

A new rule was implemented in the administration system in order to manage real time claims with regards to members with an option termination date. In some instances, this rule malfunctioned, allowing for a payment of a claim after termination date.

Corrective course of action

The malfunction has subsequently been fixed and is operating as intended. In addition, further controls have been implemented, including monthly exception reports to monitor this specific issue. The report will be generated and reviewed by the assessing department and will occur in conjunction with the post membership program to ensure that all claims after termination are processed correctly.

20 Events After Balance Sheet Date

No events have occurred subsequent to the financial year end that materially affected the annual financial statements that the Board of Trustees believe should be brought to the attention of the members of the Scheme.

21 Investments in and Loans to Employers of Members of the Scheme and to Other Related Parties

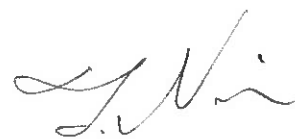
The Scheme holds no investments in, nor has it made loans to, members or other related parties.



Mr. Charles Akeroyd
Chairperson : Board of Trustees



Mrs. Antea Fourie-van Zyl
Trustee



Mr. Thoneshan Naidoo
Principal Officer



Independent Auditor's Report

To the Members of Medshield Medical Scheme

Report on the financial statements

Opinion

We have audited the financial statements of Medshield Medical Scheme (the Scheme), set out on pages 30 to 91, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, the statement of changes in funds and reserves and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Scheme as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Scheme in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Outstanding claims provision</p> <p>The outstanding claims provision of R199,600,000 at year-end as described in Note 7 to the financial statements, is a provision recognised for the estimated cost of healthcare benefits that have been incurred prior to year-end but that were only reported to the Scheme after year-end.</p> <p>The outstanding claims provision is calculated by the Scheme's actuaries which is reviewed by management and the Audit, Risk and Compliance Committee and recommended to the Board of</p>	<p>We obtained an understanding from the Scheme's actuaries regarding the process to calculate the outstanding claims provision. The actuarial model applied by the Scheme is one that is generally applied within the medical scheme industry.</p> <p>We obtained the actual claims data from the member administration system covering the year ended 31 December 2018.</p> <p>For a sample of actual claims received by the Scheme in the 2018 financial year, we tested the accuracy of the service and process dates.</p>

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Chief Executive Officer: T D Shango
Management Committee: S N Mladikane, J S Masondo, P J Mothibe, C Richardson, F Tonelli, C Volschenk
The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukskei View, where a list of directors' names is available for inspection.
Reg. no. 1998/012055/21, VAT reg.no. 4950174682.

<p>Trustees for approval.</p> <p>The Scheme’s actuaries use an actuarial model, based on the Scheme’s actual claim development patterns throughout the year, to project the year-end provision. This model applies a combination of the Basic Chain Ladder (“BCL”) and Bornheutter-Ferguson (“BF”) methods. The claim service date, processing date and amount are used to derive claim development patterns. These historical patterns are then used to estimate the outstanding claims provision.</p> <p>We identified this to be a matter of most significance to the audit because of the uncertainty in the projected claims pattern. A change in the projected claims pattern can cause a material change to the amount of the provision.</p>	<p>No material inconsistencies were noted.</p> <p>We substantively tested a sample of claims against the relevant Scheme rules and assessed completeness of the claims data.</p> <p>The claims data that was included in the Scheme’s actuarial model was agreed to the above actual claims data with no material inconsistencies noted.</p> <p>To assess the reasonableness of the Scheme actuaries’ estimation process, we compared the actual claim results in the current year to the prior year provision. Based on our assessment, the estimation process was considered reasonable.</p> <p>Our internal actuarial experts independently calculated the Scheme’s outstanding claims provision, taking into account the claims data tested above. We compared our results with that of the Scheme and found the amounts to approximate each other.</p> <p>We have evaluated management’s experts by assessing their competence, capability, and objectivity and noted no aspects requiring further consideration. We also obtained the outstanding claims provision report from the Scheme’s actuaries and assessed whether the inputs, assumptions, methodology and findings per the report were consistent with our testing above. Based on the results of our assessment we accepted the inputs, assumptions, methodology and findings as reasonable.</p> <p>We obtained the actual claims run-off report up to 31 March 2019 from the Scheme’s management. For a sample of claims from the report, we tested the occurrence and accuracy of the claims as well as the accuracy of the related service dates and we identified no material inconsistencies.</p> <p>We enquired from the Scheme’s management whether there were delays in processing claims at year-end that could material impact the claims run-off pattern subsequent to year-end. No material delays were identified.</p>
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Other Information

The Scheme’s trustees are responsible for the other information. The other information comprises the information included in the Medshild Medical Scheme Annual Financial Statements for the year ended 31 December 2018. The other information does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial

statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Scheme's Trustees for the Financial Statements

The Scheme's trustees are responsible for the preparation and fair presentation of the financial statements, in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa, and for such internal control as the Scheme's trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Scheme's trustees are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Scheme's trustees either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Scheme's trustees.
- Conclude on the appropriateness of the Scheme's trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Scheme's trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the Scheme's trustees, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Non-compliance with the Medical Schemes Act of South Africa

As required by the Council for Medical Schemes, we report the following material instance of non-compliance with the requirements of the Medical Schemes Act of South Africa, as amended, that have come to our attention during the course of our audit:

Section 33 (2)(b) of the Medical Schemes Act of South Africa: six benefits options were not self –supporting in terms of performance, as disclosed in note 28 of the financial statements.

Reportable Irregularities

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified a reportable irregularity in terms of the Auditing Profession Act. We have reported such matter to the Independent Regulatory Board for Auditors. The matter pertaining to the reportable irregularity has been described in note 8 in the Board of Trustees report in the financial statements.

Audit Tenure

As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that PricewaterhouseCoopers Inc. has been the auditor of Medshield Medical Scheme for 20 years. The engagement partner, Johannes Grové, has been responsible for Medshield Medical Scheme's audit for 7 years.



PricewaterhouseCoopers Inc.

Director: JJ Grové

Registered Auditor

Johannesburg

26 April 2019

MEDSHIELD MEDICAL SCHEME

STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2018

	Note	2018 R'000	2017 R'000
ASSETS			
Non-current assets		743 026	553 244
Property, plant and equipment	2	8 784	6 647
Intangible asset	3	-	-
Financial assets		734 242	546 597
		734 242	-
- Fair value through other comprehensive income	4	597 618	-
- Fair value through profit or loss	4	136 624	-
- Available for sale	4	-	546 597
Current assets		1 193 894	1 498 235
Financial assets		987 023	1 363 631
- Fair value through other comprehensive income	4	382 006	-
- Fair value through profit or loss	4	605 017	-
- Scheme Investments: available for sale	4	-	1 203 734
- Personal medical savings account trust investment		-	159 897
Trade and other receivables	5	27 873	23 361
Cash and cash equivalents	6	178 998	111 243
Total assets		1 936 920	2 051 479
FUNDS AND LIABILITIES			
Members' funds		1 417 942	1 573 884
Accumulated funds		1 354 018	1 365 798
Investment reserves		63 924	-
- Fair value through OCI reserve		17 630	-
- Revaluation reserve		46 294	-
Available-for-sale investment reserve		-	208 086
Current liabilities		518 978	477 595
Outstanding claims provision	7	199 600	170 031
Personal medical savings account trust liability	8	168 948	161 536
Trade and other payables	9	150 430	146 028
Total funds and liabilities		1 936 920	2 051 479

MEDSHIELD MEDICAL SCHEME

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	2018 R'000	2017 R'000
Risk contribution income	10	3 289 164	2 942 378
Relevant healthcare expenditure		(3 141 060)	(2 879 106)
Net claims incurred	11	(3 090 800)	(2 836 539)
Risk claims incurred		(3 105 566)	(2 849 657)
Third party claim recoveries		8 346	7 507
Hospital discounts		6 420	5 611
Accredited managed healthcare services	11	(55 436)	(49 556)
Net income on risk transfer arrangements	12	5 176	6 989
Risk transfer arrangement fees paid		(20 281)	(17 924)
Recoveries from risk transfer arrangements		25 457	24 913
Gross healthcare result		148 104	63 272
Broker service fees		(69 768)	(61 452)
Administration expenses	13	(273 619)	(257 561)
Net impairment (losses) /recoveries on healthcare receivables	14	(1 875)	(1 024)
Net healthcare result		(197 158)	(256 765)
Other income		124 235	192 037
Investment income	15	123 423	191 756
Sundry income	16	812	281
Fair value adjustments		(14 526)	-
Fair value adjustment on financial assets held at fair value through profit and loss	4	(16 126)	-
Realised gain on financial assets held at fair value through profit and loss		1 600	-
Other expenditure		(12 099)	(24 850)
Interest paid on member savings	8	-	(12 150)
Asset management fees		(12 099)	(12 700)
Net (deficit) for the year		(99 548)	(89 578)
Other comprehensive income		14 280	24 761
<i>Items that may be reclassified to profit or loss:</i>			
Fair value adjustment for financial assets valued through OCI (debt instruments)	4	15 339	-
Reclassification adjustment on realised gains for debt instruments	15	(1 059)	-
Fair value adjustment on available for sale investments	4	-	90 164
Net realised gains transferred from reserves on disposal of investments	15	-	(65 403)
<i>Items that will not be reclassified to profit or loss:</i>		(79 302)	-
Fair value through OCI adjustment for equity investments	4	(79 302)	-
Realised fair value through OCI for equity instruments		8 628	-
Reclassification adjustment on realised gains for equity instruments		(8 628)	-
Total comprehensive (loss) for the year		(164 571)	(64 817)

MEDSHIELD MEDICAL SCHEME

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Note	2018 R'000	2017 R'000
Cash flows from operating activities			
Net cash flow utilised in operations	18	(183 251)	(206 516)
Cash flows from investing activities			
Acquisition of property, plant & equipment	2	(4 986)	(3 999)
Purchase of available-for-sale investments		-	(390 069)
Purchase of fair value through OCI financial assets	4	(694 027)	-
Proceeds on disposals of fair value through OCI financial assets	4	802 901	-
Proceeds on disposal of available-for-sale investments		-	435 569
Realised fair value through OCI for equity instruments		8 628	
Fair value adjustment for financial assets fair valued through profit and loss	4	16 126	
Investment income			
- Interest	15	93 121	99 594
- Dividends	15	29 243	26 759
Net cash generated from investing activities		<u>251 006</u>	<u>167 854</u>
Net increase in cash and cash equivalents		67 755	(38 662)
Cash and equivalents at beginning of year		111 243	149 905
Cash and equivalents at end of year	6	<u>178 998</u>	<u>111 243</u>

MEDSHIELD MEDICAL SCHEME

STATEMENT OF CHANGES IN FUNDS AND RESERVES

for the year ended 31 December 2018

	Accumulated funds R'000	Fair value through OCI reserve (Debt) R'000	Fair value through OCI reserve (Equity) R'000	Available for-sale- investment reserve R'000	Total members' funds R'000
Balance as at 1 January 2018	1 365 798	-	-	208 086	1 573 884
Net (deficit) for the year	(99 548)	-	-	-	(99 548)
Reclassification (IFRS 9 adjustment)	79 140	3 350	125 596	(208 086)	-
Unrealised fair value changes through OCI for equity instruments			(79 302)		(79 302)
Fair value changes through OCI for debt instruments		15 339			15 339
Reclassification adjustment on realised gains for debt instruments	-	(1 059)		-	(1 059)
Realised fair value through OCI for equity instruments	-	-	8 628	-	8 628
Reclassification adjustment on realised gains for equity instruments	8 628		(8 628)		
Fair value through OCI adjustment for equity investments	-	-	-	-	-
Total comprehensive income	(11 780)	17 630	46 294	(208 086)	(155 942)
Balance as at 31 December 2018	1 354 018	17 630	46 294	-	1 417 942
Balance as at 1 January 2017	1 455 376	-	-	183 325	1 638 701
Net (deficit) for the year	(89 578)	-	-	-	(89 578)
Other comprehensive income	-	-	-	-	-
Net realised gains transferred from reserves on disposal of investments	-	-	-	(65 403)	(65 403)
Unrealised gain on revaluation of available-for-sale investments	-	-	-	90 164	90 164
Total comprehensive income	(89 578)	-	-	24 761	(64 817)
Balance as at 31 December 2017	1 365 798	-	-	208 086	1 573 884

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1 Significant accounting policies

The following are the significant accounting policies applied in the preparation of the annual financial statements. These policies comply with International Financial Reporting Standards (IFRS).

These policies have been consistently applied, unless otherwise stated. The format of the statement of comprehensive income conforms with the requirements set out in Circular 41 of 2012, issued by the Council for Medical Schemes.

1.1 Basis of preparation

Statement of compliance

The annual financial statements are prepared in accordance with IFRS as defined by IAS 1 and the Medical Schemes Act 131 of 1998 as amended.

Basis of measurement

The annual financial statements are prepared on the going concern basis using the historical cost basis, except for certain financial instruments, which are carried at fair value.

Functional and presentation currency

These financial statements are presented in Rands, which is the Scheme's functional and presentation currency. All the financial information presented in Rands has been rounded to the nearest thousand Rand.

Use of estimates and judgements

The preparation of annual financial statements, in conformity with IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the scheme's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the annual financial statements, are disclosed in Notes 7 & 23.

1.2 Adoption of new and revised International Financial Reporting Standards (IFRS)

a. New standards, amendments and interpretations effective in 2018 and relevant to the scheme:

Reference	Standard, interpretation or amendment	Effective date
Amendment to IFRS 4, 'Insurance contracts'	These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will: a) Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS9 is applied before the new insurance contracts standard is issued; and b) Give companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS9 until 2022. The entities that defer the application of IFRS9 will continue to apply the existing financial instruments standard - IAS39.	1 January 2018
Regarding the implementation of IFRS9, 'Financial instruments'		
IFRS 9 - Financial Instruments (2009-2010) a) Financial Liabilities b) Derecognition of financial instruments c) Financial Assets General hedge accounting	This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.	1 January 2018

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1 Significant accounting policies (continued)

1.2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

a. New standards, amendments and interpretations effective in 2018 and relevant to the scheme (continued):

Reference	Standard, interpretation or amendment	Effective date
IFRS 15 - Revenue from contracts with customers	The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer.	1 January 2018
Amendment to IFRS 15 - Revenue from contracts with customers	The IASB has amended IFRS15 to clarify the guidance, but there was no major change to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedient related to transition to the new revenue standard.	1 January 2018

The above amendments did not have a material impact on the Scheme's financial statements.

b. New standards, amendments and interpretations not yet effective but relevant to the scheme:

Reference	Standard, interpretation or amendment	Effective date
IFRS 16 - Leases	<p>This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting for lessees in particular.</p> <p>Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.</p> <p>For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.</p> <p>At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.</p> <p>IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases - Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.</p>	01 January 2019

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1 Significant accounting policies (continued)

1.2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

b. New standards, amendments and interpretations not yet effective but relevant to the scheme (continued):

IFRS 17 - Insurance Contracts	<p>The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.</p> <p>Under IFRS 17, the general model requires entities to measure an insurance contract on initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.</p> <p>Aside from the general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.</p> <p>For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.</p> <p>IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases - Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.</p>	01 January 2022
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1.3 Property, plant and equipment

Property, plant and equipment is reflected at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on the straight-line basis over the estimated useful lives of the assets. Estimated useful lives and residual values are reassessed annually.

The estimated current maximum useful lives are:

Furniture and fittings - 5 years

Office equipment - 4 years

Motor vehicles - 4 years

Computer equipment - 3 years

Leasehold improvements - 3 years

Maintenance and repairs which neither materially add to the value of the assets nor appreciably prolong their useful lives are charged against income.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1 Significant accounting policies (continued)

1.4 Intangible Assets

Intangible assets are identifiable long-term assets having no physical existence. Intangible assets acquired are shown at historical cost. Amortisation is calculated using the straight-line basis over the estimated useful life of the asset. Intangible assets are impaired when there is a permanent loss of value. The estimated useful life and residual values are reassessed annually. At balance sheet date, intangible assets are shown at fair value.

1.5 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.6 Financial assets

Previously, the Scheme's financial assets were classified depending on the purpose for which the financial assets were acquired. Following the adoption of IFRS 9, the Scheme has classified its financial assets based on the business model used to manage the financial assets and the contractual terms of the cashflows.

(i) Classification

From 1 January 2018, the Scheme classifies its financial assets in the following measurement categories:

- a) those to be measured subsequently at fair value through other comprehensive income and fair value through profit and loss, and
- b) those to be measured at amortised cost.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1 Significant accounting policies (continued)

1.6 Financial assets

Equity Instruments

The Scheme subsequently measures all equity investments at fair value. At initial recognition, the Scheme has made an irrevocable election to present equity investments at FVOCI, and therefore there is no subsequent reclassification of fair value gains and losses to profit and loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit and loss as other income when the Scheme's right to receive payments is established.

(iv) Impairment

From 1 January 2018, the Scheme assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, of which the majority represents insurance receivables, the Scheme does not apply the impairment guidelines as outlined in IFRS9, as insurance receivables are not included in IFRS9. The accounting policy for impairment as indicated in 1.7 still applies. They are governed under the scope of IFRS4.

Accounting policies applied until the 31 December 2017

The Scheme has not applied IFRS 9 retrospectively, and as a result, the comparative information provided continues to be accounted for in accordance with the Scheme's previous accounting policy.

The scheme recognises a financial instrument when it becomes party to the contractual provisions of the instrument.

The scheme classifies its financial assets in the following categories: loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. The scheme determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of receivables. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. The scheme's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(b) Available-for-sale financial investments

Available-for-sale financial investments are non-derivatives that are designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1 Significant accounting policies (continued)

1.6 Financial assets (continued)

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Scheme commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Scheme has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Scheme measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Debt instruments

Fair value through other comprehensive income (OCI)

Assets that are held for collection of contractual cash flows and for selling the financial assets are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest income which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit and loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment expenses are presented as separate line item in the statement of profit and loss.

Fair value through profit or loss (FVPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through FVPL. Gain or loss on a debt instrument that is subsequently measured at FVPL, is recognised in profit or loss, and presented separately.

Amortised Cost

Assets that are held for collection of contractual cashflows where those cashflows represent soley payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and are presented in investment income. Impairment losses are presented as a separate line item in the statement of profit or loss.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1 Significant accounting policies (continued)

1.6 Financial assets (continued)

Available-for-sale investments are initially measured at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset. The fair values of financial instruments traded in an active market (such as trading and available-for-sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the scheme is the current closing price. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments. Other techniques such as estimated discounted cash flows and net asset values, are used to determine fair values for the remaining financial instruments.

Available-for-sale investments are derecognised when the rights to receive cash flows from the financial asset have expired or where they have been transferred and the scheme has also transferred substantially all risks and rewards of ownership.

Available-for-sale investments are carried at fair value. Unrealised gains and losses arising from changes in the fair value of the available-for-sale investments are included in the available-for-sale reserve and are not taken to investment income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in the reserve are included in the statement of comprehensive income as investment income.

Interest on available-for-sale investments calculated using the effective interest method is recognised in the statement of comprehensive income as investment income. Dividends on available-for-sale investments are recognised in the statement of comprehensive income as part of investment income when right of payment is established.

The fair values of quoted investments are at closing market prices. Unitised investments are measured at the repurchase price.

(c) Trade and other receivables

Trade and other receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less provision for impairment. An appropriate allowance for estimated recoverable amounts is recognised in the statement of comprehensive income when there is objective evidence that assets have been impaired. This allowance is based on a review of the ageing profile of outstanding balances and historical recovery rates. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within "net impairment losses on healthcare receivables". When a trade receivable is uncollectable, it is written off against the allowance account. Permanent impairments are written off to the statement of comprehensive income when identified. Subsequent recoveries of amounts previously written off are credited against net impairment losses on healthcare receivables in the statement of comprehensive income. Receivables arising from healthcare insurance contracts with members are also classified in this

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks and other short term liquid investments that are readily convertible to cash and are subject to an insignificant risk of change in value. Short term liquid investments have maturities of 3 months or less. Cash and cash equivalents are classified as loans and receivables and subsequently measured at amortised cost using the effective interest method.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1 Significant accounting policies (continued)

1.6 Financial assets (continued)

(e) Financial assets carried at amortised cost

The scheme assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The amount of the impairment loss for other financial assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate. All impairments are recognised in the statement of comprehensive income.

The scheme first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the scheme determines that no objective evidence of impairment exists for individually assessed financial assets, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses these for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the recoverable amount and is accounted for in an allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(f) Financial assets carried at fair value

The scheme assesses at each statement of financial position date whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial assets previously recognised in the statement of comprehensive income - is removed from equity and recognised in the statement of comprehensive income as part of investment income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not subsequently reversed through the statement of comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be reversed, with the amount of the reversal recognised in the statement of comprehensive income.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1 Significant accounting policies (continued)

1.7 Investment in Structured entity

The Scheme's investments in Investee Funds is subject to the terms and conditions of the respective Investee Fund's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those Investee Funds. The investment manager makes investment decisions after extensive due diligence of the underlying fund, its strategy and the overall quality of the underlying fund's manager. All of the Investee Funds in the investment portfolio are managed by portfolio managers who are compensated by the respective Investee Funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of the Fund's investment in each of the Investee Funds.

The right of the scheme to request redemption of its investments in Investee Funds ranges in frequency from weekly to semi-annually.

1.8 Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method.

1.9 Provisions

Provisions are recognised when the scheme has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

1.10 Medical insurance contracts

Contracts under which the scheme accepts significant insurance risk from another party (the member) by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or the other beneficiary are classified as insurance contracts. The contracts issued compensate the scheme's members for healthcare expenses incurred in accordance with PMB's (prescribed minimum benefits) and scheme rules.

Description of healthcare benefits provided

The types of benefits offered by the scheme in terms of its rules in return for monthly contributions are

- In-hospital benefits,
- Chronic benefits, and
- Day to day benefits

Accounting for contributions received

Gross contributions comprise medical risk contributions and member savings contributions.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1 Significant accounting policies (continued)

1.10 Medical insurance contracts (continued)

Contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably certain. Risk contributions represent gross contributions after deduction of savings plan contributions, which is unbundled and accounted for under IFRS9. The earned portion of risk contributions received is recognised as revenue. Risk contributions are earned from the date of attachment of insurance risk, over the indemnity period on a straight-line basis. Risk contributions are shown before the deduction of broker service fees and other similar costs. Contributions received in advance are included in trade and other payables.

Liabilities and related assets under the liability adequacy test

The liability for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows, and comparing this amount to the carrying value of the liability net of any related assets (i.e. the value of business acquired).

Where a shortfall is identified, an additional provision is made and the scheme recognises the deficiency in income for the year.

Accounting for broker fees

Broker fees are recognised as incurred, on a monthly basis.

Claims incurred

Gross claims incurred comprise the total estimated cost of all claims arising from healthcare events that have occurred in the year and for which the scheme is responsible, whether or not reported by the end of the year.

Risk claims incurred comprise:

- Claims submitted and accrued for services rendered during the year, net of recoveries from members for co-payments and savings plan accounts, for which a separate liability is already recognised;

Risk claims incurred comprise:

- Claims for services rendered during the previous year not included in the outstanding claims provision for that year, net of recoveries from members for co-payments and savings plan accounts;
- Claims settled in terms of risk transfer arrangements;
- Claims incurred, not yet reported and
- Accredited managed healthcare services.

Outstanding risk claims

Claims outstanding comprise provisions for the scheme's estimate of the ultimate cost of settling all claims incurred but not yet reported at the statement of financial position date. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the nature and number of members according to gender and age, trends in claims frequency, changes in claims processing cycles and variations in the nature and average cost incurred per claim. The provision is calculated based on claims reported not yet settled and claims not reported.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1 Significant accounting policies (continued)

1.10 Medical insurance contracts (continued)

Estimated co-payments and payments from savings plan accounts are deducted in calculating the outstanding claims provision. The scheme does not discount its provision for outstanding claims on the basis that claims must be settled within four months of the medical event and therefore the discounting of the provision is not considered material.

Medical Savings Accounts

The medical savings account, which is managed by the scheme on behalf of its members, represents savings contributions (which are a deposit component of the insurance contracts), net of any savings claims paid on behalf of members in terms of the scheme's registered rules.

The deposit component of the insurance contracts has been unbundled, since the scheme can measure the deposit component separately. The deposit component is recognised in accordance with IAS 39 and is initially measured at fair value and subsequently at amortised cost using the effective interest rate method. The insurance component is recognised in accordance with IFRS 4.

Unspent savings at year-end are carried forward to meet future expenses for which the members are responsible. In terms of the Medical Schemes Act 131 of 1998, as amended, balances standing to the credit of members are refundable only in terms of Regulation 10 of the Act.

Advances on savings contributions are funded from the scheme's funds, and the risk of impairment is carried by the scheme.

Liability Adequacy Test

Liability adequacy tests are performed to ensure the adequacy of the member insurance contract liabilities as at the reporting date. In performing these tests, current estimates of future cash flow under the scheme's insurance contracts are used. Any deficiency is immediately recognised in the scheme's surplus or deficit.

1.11 Risk transfer arrangements

Contracts entered into by the scheme with third party service providers under which the scheme is compensated for losses/claims (through the provision of services to our members) on one or more contracts issued by the scheme and that meet the classification requirements of insurance contracts are classified as risk transfer arrangements (reinsurance contract). Risk transfer premiums/ fees are recognised as an expense over the indemnity period on a straight-line basis. If applicable, a portion of risk transfer premiums/fees is treated as pre-payments.

Risk transfer claims and benefits reimbursed are presented in the statement of comprehensive income and statement of financial position on a gross basis.

Amounts recoverable under such contracts are recognised in the same year as the related claim.

Assets relating to risk transfer arrangements include balances due under risk transfer arrangements for outstanding risk claims provisions and claims reported not yet paid. Amounts recoverable under risk transfer arrangements are estimated in a manner consistent with the risk claims provisions, claims reported not yet paid, and settled claims associated with the risk transfer arrangement taking into account the terms of the contract.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1 Significant accounting policies (continued)

1.11 Risk transfer arrangements (cont.)

Amounts recoverable under risk transfer arrangements are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the scheme may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the scheme will receive under the risk transfer arrangement.

1.12 Accredited managed healthcare expenditure

Accredited managed healthcare expenditure consists of expenses incurred for accredited services rendered by accredited managed healthcare providers. They are classified under relevant healthcare expenditure and included in the gross healthcare result. Unaccredited managed healthcare expenses are included in administration expenses.

1.13 Revenue recognition

Contribution income

Contribution income is dealt with in 1.11.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

Dividend income

Dividend income is recognised when the right to receive payment is established.

1.14 Reimbursements from the Road Accident Fund (RAF)

The scheme grants assistance to its members in defraying expenditure incurred in connection with the rendering of any relevant health services. Such expenditure may be in connection with a claim that is also made to the RAF, administered in terms of the Road Accident Fund Act No. 56 of 1996 as amended (the RAFA). If the member is reimbursed by the RAF, they are contractually obliged to cede that payment to the scheme to the extent that they have already been compensated.

A reimbursement from the RAF is a possible asset that arises from a claim submitted to the RAF and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the scheme. The contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. Due to the uncertain outcome of claims to the RAF, the scheme has accounted for reimbursements on a cash received basis. If an inflow of economic benefits has become probable, the scheme discloses the contingent asset. Amounts received from members in respect of reimbursements from the RAF are recognised as third party claim recoveries and deducted from claims and they are not reflected as sundry income.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1 Significant accounting policies (continued)

1.15 Defined contribution fund/ Employee benefits

Pension Obligation

The scheme participates in a defined contribution plan via a managed umbrella fund. A defined contribution plan is a plan under which the scheme pays fixed contributions into a separate entity. The scheme has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Leave pay accrual

The scheme recognises, in full, employees' rights to annual leave entitlement in respect of past services.

Bonuses

Management and staff bonuses are recognised as an expense in staff costs as incurred.

1.16 Leases

Leases of assets under which substantially all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as an expense in the period in which termination takes place.

1.17 Allocation of income and expenditure to benefit options

The following items are directly allocated to benefit options:

- Risk contributions;
- Risk claims incurred;
- Net income/(expense) on risk transfer arrangement fees;
- Accredited managed healthcare services;

The remaining items are apportioned based on the number of members on each option (*or other suitable basis*):

- Administration fees;
- Broker fees;
- Other administration expenditure;
- Investment income;
- Other income; and
- Other expenditure.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

2 Property, plant and equipment	Leasehold	Motor vehicles	Furniture & fittings	Computer and office	Total
	Improvements			equipment	
	R'000	R'000	R'000	R'000	R'000
Year ended 31 December 2018					
Gross carrying amount					
At beginning of year	2 748	1 716	5 214	3 472	13 150
Additions	650	-	3 915	421	4 986
At end of year	3 398	1 716	9 129	3 893	18 136
Accumulated depreciation					
At beginning of year	(1 638)	(1 097)	(1 343)	(2 425)	(6 503)
Depreciation charges	(1 019)	(318)	(1 119)	(393)	(2 849)
At end of year	(2 657)	(1 415)	(2 462)	(2 818)	(9 352)
Net carrying amount at end of year	741	301	6 667	1 075	8 784
Year ended 31 December 2017					
Gross carrying amount					
At beginning of year	2 418	1 520	2 106	3 107	9 151
Additions	330	196	3 108	365	3 999
At end of year	2 748	1 716	5 214	3 472	13 150
Accumulated depreciation					
At beginning of year	(598)	(736)	(848)	(2 060)	(4 242)
Depreciation charges	(1 040)	(361)	(495)	(365)	(2 261)
At end of year	(1 638)	(1 097)	(1 343)	(2 425)	(6 503)
Net carrying amount at end of year	1 110	619	3 871	1 047	6 647
3 Intangible Asset					
Gross carrying amount					
At beginning of year*				10 000	10 000
Additions				-	-
Impairment				-	-
At end of year				10 000	10 000
Amortisation / impairment					
At beginning of year*				-	-
Amortisation / impairment charges				10 000	10 000
At end of year				10 000	10 000
Net carrying amount at end of year				-	-

* The Scheme purchased three trademarks in 2013 for a total consideration of R10m. The Scheme subsequently investigated the validity of the trademark and on expert opinion, it was determined that the trademark held no value and was thus subsequently impaired.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

	2018 R'000	2017 R'000
4 Financial assets		
Current	987 023	1 363 631
- Scheme investments	987 023	1 203 734
- Personal member savings trust investment	-	159 897
Non-Current	734 242	546 597
	1 721 265	1 910 228
Fair value at the beginning of the year	1 910 228	1 865 564
Additions/re-investments	575 041	270 282
Disposals at fair value at date of disposal	(802 901)	(435 569)
Re-investment of investment income	118 986	119 787
Fair value gain on revaluation of available-for-sale investment to fair value	-	90 164
Fair value adjustment for financial assets valued through OCI (debt instruments)	15 339	-
Fair value adjustment for financial assets fair valued through profit and loss	(16 126)	-
Fair value adjustment for financial assets valued through OCI (equity instruments)	(79 302)	-
Fair value at the end of the year	1 721 265	1 910 228
Investments have been managed by a number of fund managers namely:		
Segregated portfolio investments	1 017 666	1 189 140
Sanlam Investment Management	528 573	520 085
Argon Asset Managers	-	172 863
Prudential Portfolio Managers	489 093	496 192
Unitised investments	703 599	721 088
Allan Gray Life Limited	566 976	548 976
Stanlib Investment Managers	136 623	172 112
- Scheme investments	136 623	12 215
- Personal medical savings account trust investment	-	159 897
	1 721 265	1 910 228
Financial assets comprise the following:		
Financial Assets - other comprehensive income		
Listed equities	396 542	-
Debt instruments	159 082	-
Money market instruments	462 042	-
	1 017 666	-
Financial Assets - profit and loss		
Unitised instruments	566 976	-
Listed equities	-	-
Debt instruments	-	-
Money market instruments - risk	136 623	-
Money market instruments - Personal member savings account trust investment	-	-
	703 599	-
Available-for-sale investments		
<i>Segregated portfolio investments</i>		
Listed equities	-	498 307
Debt instruments	-	269 700
Money market instruments	-	421 133
	-	1 189 140
<i>Unitised portfolio investments</i>		
Listed equities	-	224 702
Debt instruments	-	124 898
Money market instruments - risk	-	211 591
Money market instruments - Personal member savings account trust investment	-	159 897
	-	721 088

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

4 Financial assets (continued)

Personal medical savings trust account investment represents members' personal medical savings account assets managed by the Scheme on behalf of its members. From 1st January 2018, the Scheme amended its rule to reflect the fact that trust monies are in fact monies of the Scheme and effective same date, PMSA balances no longer attract interest.

The fair value of the investments and other assets is based on market value at year end. Listed equities are based on the JSE Ltd closing price, debt instruments and money market instruments are based on the Bond Exchange of South Africa closing price. Unitised investments are measured at the repurchase price. The maximum exposure to credit risk at the reporting date is the fair value of debt securities classified as financial assets. The scheme has invested in bonds spread across all bond types and the market performance of the bond indices varied between 9.18% (2017: 9.57%) on the 1-3 year bond index to 7.37% (2017: 10.98%) on the 7-12 year bond index. All investments are denominated in South African Rands.

	2018 R'000	2017 R'000
5 Trade and other receivables		
<i>Receivables arising from medical insurance contracts</i>	36 608	29 499
Contributions outstanding	28 623	21 871
Contributions outstanding - Private members	9 557	4 254
Contributions outstanding - Group members	19 066	17 617
Recoveries from members for co-payments	680	578
Provider debtors	3 300	3 346
Claims recovery for emergency services (Meditrac)	3 614	3 614
Savings plan account advances (Note 8)	391	90
<i>Receivables arising from non-medical insurance contracts</i>	52 548	53 713
Interest accrued on call and current accounts	1 136	1 707
Inter-account bank transfer	494	494
Prepayments	1 355	1 314
Rent deposit	69	69
South African Post Office deposit	520	520
MVA Recoveries*	538	843
Fees recoverable from former Trustees**	10 322	10 322
Research fees recoverable for prior years**	27 667	27 667
Consulting fees recoverable*	57	57
Trademark cost recovery***	10 000	10 000
Sundry accounts receivable	390	720
Less : Provision for impairment loss (Note 14)	(61 283)	(59 851)
	<u>27 873</u>	<u>23 361</u>

The carrying value of trade and other receivables is a reasonable approximation of their fair value due to the short term maturities of these assets. The maximum exposure to credit risk is the carrying value of each class of receivable mentioned above. The scheme does not hold any collateral as security. The other receivables arising from non-medical insurance contracts include no impaired receivables (refer to Note 26 for credit quality evaluation).

* MVA recoveries are motor vehicle accident recoveries from the Road Accident Fund.

** As per the Council for Medical Schemes directive issued 15 June 2012 these amounts were to be recovered from various parties. These amounts are fully impaired as the recoverability is uncertain.

*** The Scheme purchased three trademarks from Alumni Trading (Pty) Ltd for R10m in 2013. The purchase agreement determined that Alumni must cause the trademarks to be transferred to Medshield which it failed to do. Medshield sent a notice of termination to Alumni in which the R10m was demanded to be returned.

	2018 R'000	2017 R'000
6 Cash and cash equivalents		
Current accounts*	178 335	110 580
Current accounts held in escrow**	663	663
	<u>178 998</u>	<u>111 243</u>

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

	2018 R'000	2017 R'000
6 Cash and cash equivalents (continued)		
<p>The average effective interest rate on current accounts was 6.10% (2017: 5.14%). The carrying value of cash and cash equivalents is a reasonable approximation of their fair value due to their short term maturities.</p> <p>* The current account balance excludes personal medical savings account, and applies to 2017 only.</p> <p>Yieldex Trading ("Landlord") and the Scheme entered into a lease agreement in respect of the premises situated at Glenrand MIB House, 288 Kent Avenue Ferndale Randburg, and in terms of which the Landlord requires that the Scheme furnishes the Landlord with a letter of guarantee in respect of the Scheme's rental obligation to the Landlord in terms of the Lease. The Scheme has furnished the Landlord with the required guarantee in the amount of R881 500.</p> <p>**Current accounts held in escrow</p>		
Deposit for South African Post Office	663	663
Total current accounts held in escrow	<u>663</u>	<u>663</u>
7 Outstanding claims provision		
Provision for outstanding claims incurred but not reported	<u>199 600</u>	<u>170 031</u>
Analysis of movements in outstanding claims		
Balance at beginning of year	170 031	103 270
Payments in respect of prior year	<u>(181 904)</u>	<u>(108 824)</u>
Over/(under)provision in prior period (Note 11)	(11 873)	(5 554)
Adjustment for current year (Note 11)	<u>211 473</u>	<u>175 585</u>
Balance at end of year	<u>199 600</u>	<u>170 031</u>

The existing accounting policy relating to the outstanding claims provision considers current estimates of all contractual flows, therefore in terms of IFRS 4, no further liability adequacy test is required.

Methodology applied to determine the provision

The actuaries apply two methods to determine the IBNR "incurred but not reported" provision, namely the Chain Ladder Method and the Bornhuetter-Ferguson Method:

The Chain Ladder Method involves calculating monthly claims run-off factors per benefit category from the data provided and then using these factors to make projections of the total claims incurred in each month, based on payments made to-date. To ensure homogeneity, these projected figures are then used to estimate an IBNR claims reserve for each month, split per benefit category and then allocated per benefit option.

The Bornhuetter-Ferguson Method applies the run-off calculated through the Chain Ladder Method to a total monthly claims estimate based on previous years' claims ratio experience. The total claims estimate is calculated based on total contributions received and the assumption that the claims ratio is in line with that of prior year.

The results from these methods is bootstrapped to provide a distribution of possible IBNR provisions based on the statistical distribution of actual run-off factors.

Process used to determine the assumptions

The actual method or blend of methods used may vary each year due to factors relevant to that year. To the extent that these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

7 Outstanding claims provision (continued)

Process used to determine the assumptions (continued)

- changes in processes can relate to change in the proportion of paper versus electronic claims submissions (electronic being quicker), changes/improvements on the administration system which improves turnaround times, proportion of working days in the month (public and school holidays do not have the same effect) and other ad hoc factors such as power outages or staff strikes that affect the development/recording of claims paid and incurred such as changes in claims submission procedures;
- economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum and/or maximum levels of medical benefits to be provided); and
- changes in composition of beneficiary profiles and their clinical status.

Assumptions

The assumption that has the greatest effect on the measurement of the outstanding claims provision is the proportion of claims paid 3 months after the year end (as at the end of March) when expressed as a percentage of the expected total claim payments in respect of the full year for which the outstanding claims provision is being estimated, based on historical claims development information.

The analysis of sensitivity of the various estimation techniques and variables for the determination of the claims provision provides an indication of the adequacy of the scheme's estimation process. Adequacy implies that it is equally likely that the actual result will be higher or lower than the calculated estimate. The Board believes that the liability for claims reported in the statement of financial position is adequate. However, he recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

Even though a significant proportion of the claims relating to the financial year have already been processed, the Board considers the most significant variable to be the pattern of claim submission.

Changes in assumptions and sensitivities to changes in key variables

Although the provision for outstanding claims is believed to be adequate the results are subject to a certain degree of uncertainty. As opposed to claims for 2018 that have already been paid, the claims for the 2018 estimate to be paid in future payment months are still subject to uncertainty. This quantity forms a useful basis for a sensitivity analysis. The table below illustrates the effect of a 10% increase and decrease in the claims expected to be paid in 2019 for claims with a 2018 service date.

Scenario	Claims for 2018 services paid during 2018 R'000	Outstanding claims provision R'000	Outstanding claims provision R'000	% change in outstanding claims provision
Base scenario	2 866 913	199 600	3 066 513	
Increase	2 866 913	219 560	3 086 473	0.65%
Decrease	2 866 913	179 640	3 046 553	-0.65%

The same analysis appears below for the outstanding claims provision for 2017 where claims paid after March 2018 for 2017 forms the basis for the sensitivity analysis. Note that the base scenario figures below are actuals, not estimates.

Scenario	Claims for 2017 services paid during 2017 R'000	Outstanding claims provision R'000	Outstanding claims provision R'000	% change in outstanding claims provision
Base scenario	2 646 002	181 107	2 827 109	
Increase	2 646 002	199 218	2 845 220	0.64%
Decrease	2 646 002	162 996	2 808 998	-0.64%

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

	2018 R'000	2017 R'000
8 Personal medical savings account trust liability		
Balance on personal member savings at the beginning of the year	161 536	146 742
Less: Advances on member savings at beginning of the year	(90)	(106)
Net balance on member savings at the beginning of the year	161 446	146 636
Add: Member savings contributions received or receivable (Note 10)	118 056	116 637
Interest earned on personal medical savings account investment (Note 15)	-	12 150
Transfers (to) / from other schemes	722	(164)
Claims paid on behalf of members (Note 11)	(99 542)	(102 184)
Less: Refunds	(12 125)	(11 629)
Add: Advances on savings plan accounts (Note 5)	391	90
Balance due to members savings at the end of the year	168 948	161 536
Investments of member personal medical savings trust account managed by the scheme on behalf of its members		
Total personal medical savings account trust monies invested in Money Market funds (Note 4)	-	159 897

- The scheme has two savings options.
- The personal medical savings contains a demand feature in terms of regulation 10 of the Medical Schemes Act that any credit balance on a member's personal savings account must be taken as a cash benefit when the member terminates his or her membership of the scheme or benefit option, and then enrolls in another benefit option or medical scheme without a personal medical savings account or does not enrol in another medical scheme.
- Advances on member personal medical savings are included in trade and other receivables (Note 5). The scheme does not charge interest on advances on personal medical savings accounts.
- As at the end of the period the carrying amount of the personal medical savings accounts were deemed to be equal to their fair values, which is the amount payable on demand. The amounts were not discounted due to the demand feature.
- The carrying value of personal medical savings is a reasonable approximation of its fair value as it is payable on demand.
- The Scheme rules were changed effective 1 January 2018 to reflect that personal medical savings account (PMSA) trust monies received are the funds of the Scheme and there is no obligation to deposit PMSA trust monies received into a separate trust account. Furthermore the Scheme rules state that PMSA trust monies received may be utilised by the Scheme to fund Scheme operations. The Scheme does not allocate interest to PMSA balances.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

	2018 R'000	2017 R'000
9 Trade and other payables		
<i>Payables arising from medical insurance contracts</i>	<i>107 273</i>	<i>103 048</i>
Accrual for member refunds	3 722	3 039
Contribution credit balances	3 722	3 039
Contributions received in advance	80 367	75 506
Reported claims not yet paid	13 066	20 123
Balance at beginning of year	20 123	18 415
Payment made for the year	(3 000 174)	(2 775 312)
Current year claims	2 980 051	2 756 897
Claims run payable at year end	13 066	20 123
Amounts owing to managed care service providers	10 006	4 268
Amounts owing to ambulance services	112	112
<i>Payables arising from non- medical insurance contracts</i>	<i>43 157</i>	<i>42 980</i>
Accrual for ISO accreditation	269	910
Accrual for consulting services	228	425
Accrual for IT related services	3 328	2 834
Accrual for actuarial services	2 011	-
Accrual for leave liability	4 131	4 852
Accrual for legal fees	4 338	597
Provision for internal audit fees	821	656
Provision for external audit fees	1 778	1 005
Accrual for forensic services	147	-
Accrual for marketing fees	2 796	2 912
Accrual for salaries and staff welfare*	20 234	19 666
Accrual for printing & postage	713	1 441
Unallocated deposits	1 731	6 409
Other payables	632	1 273
	150 430	146 028

The carrying value of trade and other payables is a reasonable approximation of their fair value due to short term maturities of these liabilities.

* Included in the accruals for salaries is the provision for short-term incentives of R19.5m.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

	2018 R'000	2017 R'000
10 Risk contribution income		
Gross contributions	3 407 220	3 059 015
Less: unbundled savings contributions (Note 8)	(118 056)	(116 637)
Risk contribution income	<u>3 289 164</u>	<u>2 942 378</u>
	2018 R'000	2017 R'000
11 Risk claims incurred		
Gross claims	2 980 051	2 756 897
Claims serviced in respect of risk transfer arrangements (Note 12)	25 457	24 913
Movement in outstanding claims provision	199 600	170 031
Over provision in prior year (Note 7)	(11 873)	(5 554)
Adjustment for current year (Note 7)	211 473	175 585
Claims paid from savings accounts (Note 8)*	(99 542)	(102 184)
	<u>3 105 566</u>	<u>2 849 657</u>
Recoveries from the Road Accident Fund	(8 346)	(7 507)
Hospital discounts	(6 420)	(5 611)
Accredited managed care healthcare services**	55 436	49 556
	<u>3 146 236</u>	<u>2 886 095</u>

* Claims are paid on behalf of the members from their personal medical savings accounts in terms of Regulation 10(3) and the Scheme's registered benefits. Refer to note 8 to the financial statements for a breakdown of the movement of the personal medical savings trust account.

	2018 R'000	2017 R'000
**Accredited managed healthcare services		
Medscheme Health Risk Solutions (MHRS) - medicine benefit management*	15 129	13 824
Medical Services Organisation and MHRS (effective 01 October 2018) - hospital benefit management*	31 130	27 435
LifeSense Disease Management**	5 465	4 953
Denis Dental Management*	3 712	3 344
	<u>55 436</u>	<u>49 556</u>

The calculation of allocation of each benefit is as follows:

Per member per month*

Per member per registration**

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

	2018 R'000	2017 R'000
12 Net income on risk transfer arrangements		
Centre for Diabetes and Endocrinology (Pty) Ltd - [CDE]		
Centre for Diabetes and Endocrinology (Pty) Ltd provides the Scheme and its members a program for diabetes, which includes consultations, blood tests and hospital admissions, once approved. Members must register at the centre to qualify for this benefit upon which a fixed fee per member is paid. At year-end the scheme had 209 members (2017: 232) registered at the centre.		
The recovery in respect of Centre for Diabetes and Endocrinology (Pty) Ltd is based on average costs incurred by them in respect of the total enrolled beneficiaries managed by them. Costs include those related to medicine, including blood glucose monitors, testing strips, laboratory services, podiatry, ophthalmology and dietician costs.		
Netcare Hospitals (Pty) Ltd t/a Netcare 911		
The recovery in respect of Netcare 911 is based on the total costs incurred by them in respect of services rendered to the Scheme. Services include emergency telephonic assistance via health-on-line, emergency response by road or air ambulance to the scene of the accident as well as transfer of the beneficiary by road or air to the most appropriate medical facility.		
Premiums paid	(20 281)	(17 924)
Centre for Diabetes and Endocrinology (Pty) Ltd	(5 611)	(5 014)
Netcare Hospitals (Pty) Ltd t/a Netcare 911	(14 670)	(12 910)
Recoveries (Note 11)	25 457	24 913
Centre for Diabetes and Endocrinology (Pty) Ltd	4 097	4 024
Netcare Hospitals (Pty) Ltd t/a Netcare 911	21 360	20 889
Net income per the statement of comprehensive income	5 176	6 989

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

	2018 R'000	2017 R'000
13 Administration expenses		
Actuarial Fees	3 618	2 286
Administration IT system and hosting costs	20 388	18 932
Audit Committee fees	434	440
Audit fees	1 934	1 717
- Current year	1 900	1 677
- Prior year	34	40
Bank charges	2 178	2 000
Benefit management services	8 817	7 859
Board of Healthcare Funders membership fees	993	873
Claims processing fees	1 241	1 101
Communication costs	2 748	2 839
Computer services	15 469	12 508
Conference expenses	435	619
Consulting fees	252	1 419
Council for Medical Schemes	5 358	2 608
Depreciation (Note 2)	2 849	2 261
Distribution costs	3 604	3 791
Insurance premiums	291	217
Internal audit and other fees	2 324	3 114
Fidelity guarantee and professional indemnity insurance	439	435
Forensic fees	2 088	1 333
Legal fees	5 302	6 963
Marketing fees	29 364	31 822
Motor vehicle expenses	1 322	1 128
Office rent	10 100	9 111
Personnel and related costs	125 637	114 200
- Salaries and related costs	118 551	107 879
- Provident fund contributions	7 086	6 321
Postage and printing	3 648	4 460
Principal Officer Fees (Note 20)	2 499	4 642
Regional office infrastructure and support	270	231
Rentals of office equipment	507	436
Stationery	1 101	682
Strategic Projects	2 068	2 245
Telephone	3 166	2 736
Third party recovery fees	3 046	2 579
Trustees fees (Note 20)	4 516	4 269
Travel & Entertainment	4 499	4 387
Other expenses	1 114	1 318
	273 619	257 561

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018

14 Provision for impairments of receivables

	R'000		R'000		R'000		R'000		R'000		R'000	
31 December 2018	Contribution debtors		Sundry debtors		Members portions		Provider debtors		Savings		Total	
	Employer Groups	Private members	Sundry debtors	Members portions	Provider debtors	Savings	Total					
Opening balance	(3 807)	(1 576)	(51 660)	(548)	(2 198)	(62)	(59 851)					
Net provisions reversed/(raised) during the year	(300)	(486)	-	(51)	(308)	(287)	(1 432)					
Additional provisions made during the year	(3 195)	(755)	-	(350)	(458)	(1 044)	(5 802)					
Unused amounts reversed during the period	2 895	269	-	299	150	757	4 370					
	(4 107)	(2 062)	(51 660)	(599)	(2 506)	(349)	(61 283)					

31 December 2017

	R'000		R'000		R'000		R'000		R'000		R'000	
	Contribution debtors		Sundry debtors*		Members portions		Provider debtors		Savings		Total	
	Employer Groups	Private members	Sundry debtors*	Members portions	Provider debtors	Savings	Total					
Opening balance	(3 041)	(1 214)	(51 767)	(656)	(1 893)	(71)	(58 642)					
Net provisions reversed/(raised) during the year	(766)	(362)	107	108	(305)	9	(1 209)					
Additional provisions made during the year	(3 337)	(632)	-	(149)	(441)	(1 014)	(5 573)					
Unused amounts reversed during the period	2 571	270	107	257	136	1 023	4 364					
	(3 807)	(1 576)	(51 660)	(548)	(2 198)	(62)	(59 851)					

Sundry Debtor impairments relate primarily to the curatorship period whereby the Council for Medical Scheme issued directives to the Scheme to institute legal action on a number of matters. The Scheme raised the sundry income related to trustee fees (R10.3m), research fees (R27.7m) and consulting fees (R0.2m). There were further sundry income items raised related to the Meditrac Ambulance Claims (R3.6m) and the Medshield Trademark (R10m). All these items have been impaired as it is uncertain whether these amounts will be received by the Scheme.

14.1 Net (impairment losses) / recoveries on healthcare receivables

Net provisions (raised) during the year
Add : Bad debts written back / (written off) during the year
Net impairment (losses) in the income statement

	2018	2017
Net provisions (raised) during the year	R'000	R'000
Add : Bad debts written back / (written off) during the year	(1 432)	(1 209)
Net impairment (losses) in the income statement	(1 432)	185
	(1 875)	(1 024)

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

	2018 R'000	2017 R'000
15 Investment income		
Interest income	93 121	99 594
Interest on financial assets	89 743	-
Interest on available-for-sale investments	-	83 020
Interest on personal medical savings account trust investment (Note 8)	-	12 150
Interest on cash and cash equivalents	3 378	4 424
Net realised gains on disposal of financial assets	1 059	65 403
Realised gains from debt instruments	1 574	-
Realised losses from debt instruments	(515)	-
Realised gains from available-for-sale investments	-	160 286
Realised losses from available-for-sale investments	-	(94 883)
Dividend income	29 243	26 759
	<u>123 423</u>	<u>191 756</u>
16 Sundry income		
HMI/Agility legal recovery	594	-
Sale of old furniture	29	-
Fraud recoveries	-	277
Unallocated deposits written back after prescription / bad debts recovered	189	4
	<u>812</u>	<u>281</u>
17 Contingent assets		
a. Action has been instituted against Calabash Health Solutions (Pty) Ltd (In liquidation) and its former directors regarding the potential recovery of the amount of R46.2m relating to claims paid by the scheme as a result of Calabash's breach of a capitation agreement. The matter is still being pursued by the Schemes legal representatives.		
b. The Scheme has been successful in its claim against Yarona Healthcare Network. An award of R15.9m has been made to the Scheme. Yarona are seeking leave to appeal the ruling. The Scheme awaits a court date for the hearing.		
c. In the arbitration matter against the former Trustees, an award was made in favour of the Scheme in the amount of R1m. The matter went to Appeal and judgement by the Appeal Tribunal is reserved.		
d. The scheme has 819 (2017: 594) outstanding road accident claims to the value of R99,0m (2017: R89,7m). Due to the uncertain outcome of claims against the Road Accident Fund by members, recoveries are only accounted for on a cash received basis.		

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

	2018 R'000	2017 R'000
18 Cash flow utilised in operations		
Deficit for the year	(99 548)	(89 578)
Adjustments for :	(91 005)	(122 734)
Outstanding claims provision adjustments	29 569	66 761
Investment income	(123 423)	(191 756)
Depreciation	2 849	2 261
	<u>(190 553)</u>	<u>(212 312)</u>
<i>Working capital changes</i>		
(Increase) in trade and other receivables	(4 512)	(9 397)
Increase in trade and other payables	4 402	399
Increase in personal medical savings account trust liability	7 412	14 794
	<u>(183 251)</u>	<u>(206 516)</u>

19 Related party transactions

The Board of Trustees and the Principal Officer have the authority as well as the responsibility for planning, directing and controlling the activities of Medshield Medical Scheme. The Trustees are responsible for the affairs of the scheme.

Principal Officer and Executive Management

(i) Principal Officer

Transactions for the year:

Remuneration and considerations - Principal Officer (Note 20)	2 499	4 642
- Total Remuneration	2 366	2 903
- Short-term incentive provision	-	1 603
- Other disbursements (Operational expenses)*	133	136
Medical Aid contribution and claims made to and received from the Scheme	(16)	(280)
- Membership contributions made by Principal Officer	68	117
- Claims paid in respect of the Principal Officer	(84)	(397)
Balances at year-end	-	1 603
- Short-term incentive provision	-	1 603

* The Scheme sponsored the Boitshoko Road Surfacing and Civil Works Golf Day in the amount of R5k; an organisation controlled by the wife of the previous Principal Officer, Dr Stanley Moloabi.

(ii) Key Management

Transactions for the year:

Remuneration and considerations	15 231	15 202
- Total Remuneration	10 375	9 806
- Short-term incentive provision	4 382	4 766
- Other disbursements (Operational expenses)	474	630
Medical Aid contribution and claims made to and received from the Scheme	109	80
- Membership contributions made by executives	164	146
- Claims paid in respect of executives	(55)	(66)

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

	2018 R'000	2017 R'000
19 Related party transactions (continued)		
<i>Outstanding balances due to related parties:</i>		
Board of Trustees		
- Fees and Remuneration considerations	3 881	3 755
- Other disbursements	635	514
- Membership contributions made by Trustees	600	566
- Claims paid in respect of Trustees	1 071	223
- Trustee personal medical savings accounts balances	68	51

Terms and conditions of the related party transactions were as follows:

Remuneration

This constitutes fees received by the member, acting in the capacity of a trustee of the scheme.

Contributions received

This constitutes the contributions paid by the related party as a member of the scheme, in their individual capacity. All contributions were on the same terms as applicable to members.

Claims incurred

This constitutes amounts claimed by the related parties, in their individual capacity as members of the scheme. All claims were paid out in terms of the rules of the scheme, as applicable to members.

Member savings

The amounts owing to the related parties relate to medical aid savings balances to which the parties have a right. In line with the Scheme rules, these balances no longer earn interest. The amounts are all current, and would need to be payable on demand should an appropriate claim be issued, or the member exits the scheme.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

20 Trustees' & Principal Officer remuneration and considerations

31 December 2018

Names	Date appointed /resigned	R'000	R'000	R'000	R'000	R'000
		Fees for meeting attendance	Fees for holding office	Total remuneration	*Other disbursements (Operational expenses)	Total remuneration and operational expenses
Principal Officer						
S Moloabi	Resigned 11 May 2018.	-	1 132	1 132	44	1 176
J D Molefe	Appointed Acting Principal Officer for the period 14 May 2018 to 30 September 2018.	-	292	292	74	366
T Naidoo	Appointed 01 October 2018.	-	942	942	15	957
Sub total		-	2 366	2 366	133	2 499
Board of Trustees						
C Akeroyd (Chairperson)		12	518	530	43	573
S Makhani		245	207	452	42	494
L Sekele		309	207	516	78	594
A Molatoli	Resigned 14 March 2018.	69	41	110	4	114
Dr L Erasmus		321	229	550	62	612
A Fourie-Van Zyl		309	207	516	53	569
Dr J Soni		241	207	448	30	478
T Ntsewa	Term ended 09 February 2018.	20	23	43	1	44
L de Lange	Co-opted effective 12 February 2018.	166	184	350	128	478
M Chidi	Co-opted effective 12 February 2018.	182	184	366	194	560
Sub total		1 874	2 007	3 881	635	4 516
Total		1 874	4 373	6 247	768	7 015

* Other disbursements (operational expenses) include amongst other expenses, travel and entertainment.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

20 Trustees' & Principal Officer remuneration and considerations

31 December 2017

Names	Date appointed /resigned	R'000	R'000	R'000	R'000	R'000	R'000
		Fees for meeting attendance	Fees for holding office	Total remuneration	*Other disbursements (Operational expenses)	Total remuneration and operational expenses	
Principal Officer							
S Moloabi		-	4 506	4 506	136	4 642	
Sub total		-	4 506	4 506	136	4 642	
Board of Trustees							
C Akeroyd	Appointed Chairperson on 22 September 2017.	414	121	535	52	587	
B Hlakola	Resigned 31 March 2017.	125	-	125	-	125	
C Parsons	Removed from office on 12 June 2017.	74	138	212	6	218	
S Malima	Term ended on 24 June 2017.	95	146	241	130	371	
A Fourie-Van Zyl	Term ended on 20 November and subsequently re-appointed on 30 November 2017.	196	252	448	36	484	
Advocate T Ntsewa	Appointed Chairperson on 12 July and subsequently removed on 22 September 2017 as Chairperson.	272	189	461	42	503	
Dr L Erasmus	Term ended 24 June 2017 and re-elected on 24 June 2017.	212	266	478	33	511	
Dr J Soni		196	219	415	23	438	
L de Lange	Appointed on 01 March 2017 and term ended 24 June 2017.	47	-	47	11	58	
D Mokachwa	Appointed on 01 March 2017 and term ended 24 June 2017.	47	-	47	45	92	
S Makhani	Elected on 24 June 2017.	101	130	231	39	270	
L Sekele	Elected on 24 June 2017.	101	155	256	54	310	
A Molatoli	Elected on 24 June 2017.	100	159	259	43	302	
Sub total		1 980	1 775	3 755	514	4 269	
Total		1 980	6 281	8 261	650	8 911	

* Other disbursements (operational expenses) include amongst other expenses, travel and entertainment.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

21 Surplus/(deficit) from operations per benefit option

31 December 2018

Category	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
	MediPlus	MediValue	MediBonus	MediPhila	MediCore	MediSaver		
Number of members	23 978	36 382	3 795	4 267	4 952	6 348		
Net contribution income	1 253 659	996 772	305 108	72 562	230 485	273 538		
Net claims incurred & net income/(expense) from risk transfer arrangements	(1 171 586)	(902 884)	(313 402)	(55 047)	(229 780)	(287 111)		
Gross healthcare result	82 073	93 888	(8 294)	17 515	705	(13 573)		
Broker service fees	(26 327)	(26 246)	(4 414)	(2 014)	(3 691)	(5 236)		
Administration expenditure	(82 301)	(118 451)	(12 986)	(12 788)	(16 970)	(21 974)		
Net impairment losses on healthcare receivables	(112)	(1 424)	(461)	(114)	67	149		
Net healthcare result	(26 667)	(52 233)	(26 155)	2 599	(19 889)	(40 634)		
Investment income	37 311	52 902	5 966	5 753	7 808	9 941		
Sundry income	247	346	40	35	52	66		
Interest paid on savings accounts	-	-	-	-	-	-		
Fair value adjustment on financial assets held at fair value through profit and loss	(4 243)	(6 438)	(672)	(755)	(876)	(1 123)		
Asset management fees	(3 654)	(5 192)	(584)	(565)	(764)	(973)		
Surplus/(deficit) for the year	2 994	(10 615)	(21 405)	7 067	(13 669)	(32 723)		

Expenses not directly attributable to an option were allocated proportionately to the membership per option.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

21 Surplus/(deficit) from operations per benefit option (continued)

31 December 2018	R'000	R'000	R'000
Category	Premium Plus	Discontinued	Total
Number of members	2 367	-	82 089
Net contribution income	157 039	1	3 289 164
Net claims incurred & net income/(expense) from risk transfer arrangements	(181 250)	-	(3 141 060)
Gross healthcare result	(24 211)	1	148 104
Broker service fees	(1 841)	1	(69 768)
Administration expenditure	(8 148)	(1)	(273 619)
Net impairment losses on healthcare receivables	20	-	(1 875)
Net healthcare result	(34 180)	1	(197 158)
Investment income	3 742	-	123 423
Sundry income	25	1	812
Interest paid on savings accounts	-	-	-
Fair value adjustment on financial assets held at fair value through profit and loss	(419)	-	(14 525)
Asset management fees	(366)	(1)	(12 099)
Surplus/(deficit) for the year	(31 198)	1	(99 548)

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

21 Surplus/(deficit) from operations per benefit option (continued)

31 December 2017		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Category	MediPlus	MediValue	MediBonus	MediPhila	MediCore	MediSaver			
Number of members	25 218	31 090	4 266	3 276	5 469	6 870			
Net contribution income	1 200 760	743 150	303 881	39 028	231 080	269 725			
Net claims incurred & net income/(expense) from risk transfer arrangements	(1 115 728)	(683 840)	(314 290)	(28 618)	(249 994)	(302 891)			
Gross healthcare result	85 032	59 310	(10 409)	10 410	(18 914)	(33 166)			
Broker service fees	(25 216)	(20 080)	(4 396)	(1 083)	(3 701)	(5 163)			
Administration expenditure	(86 688)	(97 065)	(14 696)	(7 777)	(18 581)	(23 669)			
Net impairment losses on healthcare receivables	(584)	(629)	(572)	(145)	35	348			
Net healthcare result	(27 456)	(58 464)	(30 073)	1 405	(41 161)	(61 650)			
Investment income	65 209	71 200	11 133	5 399	14 134	17 836			
Sundry income	117	-	38	-	45	59			
Interest paid on savings accounts	(236)	(94)	(288)	(1)	(27)	(6 525)			
Fair value adjustment on financial assets held at fair value through profit and loss	-	-	-	-	-	-			
Asset management fees	(4 294)	(4 752)	(732)	(369)	(930)	(1 173)			
Surplus/(deficit) for the year	33 340	7 890	(19 922)	6 434	(27 939)	(51 453)			

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

21 Surplus/(deficit) from operations per benefit option (continued)

31 December 2017		R'000	R'000	R'000
Category	Premium Plus	Discontinued	Total	
Number of members	2 638	-	78 827	
Net contribution income	154 753	1	2 942 378	
Net claims incurred & net income/(expense) from risk transfer arrangements	(183 743)	(2)	(2 879 106)	
Gross healthcare result	(28 990)	(1)	63 272	
Broker service fees	(1 814)	1	(61 452)	
Administration expenditure	(9 086)	1	(257 561)	
Net impairment losses on healthcare receivables	423	100	(1 024)	
Net healthcare result	(39 467)	101	(256 765)	
Investment income	6 846	(1)	191 756	
Sundry income	22	-	281	
Interest paid on savings accounts	(4 673)	(306)	(12 150)	
Fair value adjustment on financial assets held at fair value through profit and loss	-	-	-	
Asset management fees	(451)	1	(12 700)	
Surplus/(deficit) for the year	(37 723)	(205)	(89 578)	

Expenses not directly attributable to an option were allocated proportionately to the membership per option.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

22 Critical accounting judgments and areas of key sources of estimation uncertainty

Certain critical accounting judgments in applying the Scheme's accounting policies and key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below.

The ultimate liability arising from claims made under insurance contracts

There are some sources of estimation uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for such claims. Initial estimates are made based on calculations on reported claims and derived as the claims process develops. All estimates are revised and adjusted at year-end by management. Refer to Note 7 for the method used to calculate the outstanding claims provision.

Prior year impairment of available-for-sale investments

The Scheme determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment the scheme evaluates, among other factors, the normal volatility in share price, the financial health of the investee industry and sector performance and changes in technology. Impairment may be appropriate if there is a decline in any of these factors.

Refer to the accounting policy for impairment of financial assets (Note 1.6) for the criteria used to assess impairment of debt securities.

23 Insurance risk management

Nature and extent of risks arising from insurance contracts

The Scheme issues contracts that transfer risk to the Scheme from the members. This section summarises these risks and the way the Scheme manages them.

Insurance risk - description of benefit options

The types of benefits offered by the Scheme in return for monthly contributions are a mix between traditional and savings options as indicated below:

- In-hospital benefits cover all costs incurred by members, up to the member's benefit limit, whilst they are in hospital to receive pre-authorised treatment for certain medical care.
- Chronic benefits provide cover to members limited to their specific options as prescribed by the chronic disease list. When limits have been reached, additional benefits per option as registered by the Council for Medical Schemes are made available to members and will be paid in accordance with Scheme rules.
- Day-to-day benefits cover the cost (up to Scheme approved tariff) of all out of hospital medical attention, such as visits to general practitioners and dentists as well as prescribed non-chronic medicines.

The MediSaver and Premium Plus options include a savings benefit to cover day-to-day costs.

The above benefits are extended to the principal member and their dependants based on their elected benefit option.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

23 Insurance risk management (continued)

Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Scheme assumes the cost of healthcare provision to members and their dependants. The risks relate to the health of the Scheme members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contracts. The Scheme also has exposure to market risk through its insurance and investment activities.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management and service provider profiling.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are random by nature and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. Medical scheme regulations do not permit selection of risk by explicit risk rating, e.g. rating by age or medical health. The structuring of options enables the Scheme to attract and discourage certain risk. However all options must contain prescribed minimum benefits.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, location and demographics of members covered.

Insurance risk - Demographic Analysis

Age grouping (in years)

	Current year claims					
	2018			2017		
	Number of Beneficiaries	Claims expenditure		Number of Beneficiaries	Claims expenditure	
		Male R'000	Female R'000		Male R'000	Female R'000
< 25	56 944	185 632	202 748	55 179	160 316	176 089
26 – 35	20 250	80 205	172 841	18 171	71 458	134 675
36 – 54	35 249	241 349	341 998	34 426	225 812	308 412
55 – 65	32 692	342 586	412 114	32 251	363 580	426 599
>65	20 266	476 183	524 395	20 243	411 748	478 208
	165 401	1 325 955	1 654 096	160 270	1 232 914	1 523 983
Grand Total			2 980 051			2 756 897

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018

23 Insurance risk management (continued)

Concentration of risks

The following tables summarise the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred, as determined by the service date of the claim, in relation to type of benefit provided, and by age group:

2018 Age grouping (in years)	General Practitioners R'000	Specialists R'000	Dentistry R'000	Optometry R'000	Medicines R'000	Hospital R'000	Other R'000	Total R'000
< 26	Gross claims	50 906	23 748	11 243	45 263	179 270	73 921	421 406
	Net claims	48 949	19 201	9 058	37 999	178 818	67 907	394 328
26 – 35	Gross claims	35 070	10 681	8 424	26 665	107 106	52 464	264 942
	Net claims	34 495	9 766	7 638	24 883	106 976	50 191	257 442
36 – 54	Gross claims	40 302	72 926	16 620	99 044	229 233	150 129	628 129
	Net claims	36 593	70 543	12 345	89 401	228 885	141 802	595 766
55 – 65	Gross claims	32 260	109 674	16 536	121 227	328 804	192 399	820 017
	Net claims	27 369	105 072	10 648	105 031	328 482	180 149	770 476
>65	Gross claims	21 032	154 900	8 994	118 556	506 940	227 086	1 052 039
	Net claims	13 943	145 475	7 293	83 563	506 276	201 720	962 039
Gross claims		155 181	423 476	61 817	410 755	1 351 353	695 999	3 186 533
	Net claims	133 794	404 534	43 458	340 877	1 349 437	641 769	2 980 051

Gross claims are made up of claims submitted by service providers or members and include members' portion amounts. Net claims are claims settled in accordance with the rules of the scheme.

Classification of "other" includes radiology, pathology, physiotherapy and associated health services based on the extract of claims from the operating system, Nexus, used by the Scheme in 2018.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

23 Insurance risk management (continued)

Concentration of risks

The following tables summarise the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred, as determined by the service date of the claim, in relation to type of benefit provided, and by age group:

2017 Age grouping (in years)	General Practitioners R'000	Specialists R'000	Dentistry R'000	Optometry R'000	Medicines R'000	Hospital R'000	Other R'000	Total R'000
< 26	Gross claims	39 947	21 133	8 900	51 038	144 118	52 287	349 881
	Net claims	37 794	16 309	7 092	42 769	143 801	47 454	322 985
26 – 35	Gross claims	25 516	9 122	6 435	28 947	80 709	34 773	203 896
	Net claims	24 904	8 239	5 899	27 189	80 636	33 432	197 910
36 – 54	Gross claims	35 030	66 044	14 140	112 185	195 656	104 541	545 300
	Net claims	31 286	63 528	10 880	100 670	195 291	97 623	512 914
55 – 65	Gross claims	31 606	115 508	14 868	150 741	335 939	144 833	812 871
	Net claims	26 423	110 416	9 583	129 914	335 570	133 538	758 658
>65	Gross claims	19 735	198 721	6 940	134 992	462 132	168 474	1 004 904
	Net claims	17 288	190 215	8 244	115 982	461 803	166 673	964 431
Gross claims		137 223	445 736	81 246	477 903	1 218 554	504 908	2 916 852
	Net claims	120 374	426 857	59 642	37 678	416 524	478 720	2 756 897

Gross claims are made up of claims submitted by service providers or members and include members' portion amounts. Net claims are claims settled in accordance with the rules of the scheme.

Classification of "other" includes radiology, pathology, physiotherapy and associated health services based on the extract of claims from the operating system, Nexus, used by the Scheme in 2017.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

23 Insurance risk management (continued)

Frequency and severity of claims

For insurance contracts issued, climatic and seasonal changes, as well as the spread of pandemics give rise to more frequent and severe claims.

Sources of uncertainty in the estimation of future claim payments

The Scheme frequently re-rates its products to ensure that the necessary profitability is maintained relative to the risk exposure. It is relatively easy to assess the future claims payments since a large majority of claims are lodged soon after year end before the four month expiration of claims period comes into effect.

The Scheme's strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

The strategy is set out in the annual business plan, which specifies the benefits to be provided by each option, the preferred target market and demographic split thereof. The Scheme has the right to change the terms and conditions of the contracts at renewal. Management information including contribution income and claims management information including claims ratio by option and target market demographic split, is reviewed monthly.

The main risks addressed by the Scheme in determining the contribution rates and benefits of the Scheme's different options are summarised below:

- Only part of the year's data is available when the pricing exercise is performed and for the last three treatment months a substantial portion of the claims will be outstanding (i.e. either not yet submitted or submitted but not yet paid).
- Adjustments would then need to be made for outstanding claims. This would mean applying factors derived from this year's and previous year's data. There is a risk that these claims are either overstated or understated.
- Projections of claim amounts need to be made for the remainder of the current year. This would involve using seasonality adjustments, which may differ from year to year. There is a risk of the actual experience being different to the projected experience.
- Assumptions need to be made regarding future medical price inflation and increases in benefit utilisation as a result of factors such as ageing of the membership and medical advancements. There is a risk that actual experience will differ from these assumptions.
- Expenses and fees will be loaded into the contributions. The risk is that the budgeted values may differ from actual costs incurred by the Scheme.
- Implicit currency projections need to be made due to the import of medicine, medical equipment and the potential volatility of the exchange rate makes this uncertain.
- Changes in benefit design need to be allowed for. This may be difficult if the design differs significantly from that previously offered by the Scheme.
- The risk exists that the actual changes in the Scheme's and each of the option's demographic profile will differ from those allowed for in the assumptions.
- Allowance has been made for the possible effects of changes in the legislative and market environment. There is a risk that these allowances have been over or understated.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

23 Insurance risk management (continued)

Risk transfer arrangements

The Scheme entered into capitation agreements with Centre for Diabetes and Endocrinology (Pty) Ltd and Netcare Hospitals (Pty) Ltd trading as Netcare 911 (refer Note 12). The capitation agreements involve transfer of risk and are, in substance, the same as a 100% quota share reinsurance treaty.

According to the terms of the capitation agreements, the suppliers provide certain minimum benefits to certain Scheme members, as and when required by the members. The Scheme does however remain liable to its members with respect to ceded insurance if any supplier fails to meet the obligation it assumes.

When selecting a supplier the Scheme considers their relative security. The security of the supplier is assessed from public rating information where applicable and from internal investigations, and reviewed on an on-going basis.

Sensitivity of the Scheme's financial position

According to the Medical Schemes Act of 1998, the reserve levels of Schemes must be equal to or exceed 25% of gross contributions (i.e. including savings contributions).

The table below indicates how sensitive the Scheme's results are to changes in the claims experience:

	Change in variable %	2018 R'000	2017 R'000
Actual (deficit) / surplus for the year		(99 548)	(89 578)
(Deficit) / surplus after change in claims experience	1% lower	(69 748)	(62 009)
(Deficit) / surplus after change in claims experience	1% higher	(129 349)	(117 147)

Prescribed minimum benefits (PMBs)

The Scheme has a robust process in place whereby it analyses, verifies and adjudicates PMB claims before being paid in accordance with the cost of the claim so as to, as far as possible, prevent fraudulent and incorrectly coded claims from being paid as PMB claims. The process followed is in line with the registered scheme rules.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

24 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Assets as per statement of financial position

31 December 2018	R'000	R'000	R'000	R'000
Category	Loans and receivables	Financial assets	Insurance receivables	Total carrying amount
Financial assets (Note 4)	-	1 721 265	-	1 721 265
Trade and other receivables (Note 5)	888	-	26 985	27 873
Cash and cash equivalents (Note 6)	178 998	-	-	178 998
	179 886	1 721 265	26 985	1 928 136

31 December 2017	R'000	R'000	R'000	R'000
Category	Loans and receivables	Available-for-sale financial assets	Insurance receivables	Total carrying amount
Available-for-sale investments (Note 4)	-	1 910 228	-	1 910 228
Trade and other receivables (Note 5)	2 053	-	21 308	23 361
Cash and cash equivalents (Note 6)	111 243	-	-	111 243
	113 296	1 910 228	21 308	2 044 832

Liabilities as per statement of financial position

31 December 2018	R'000	R'000	R'000
Category	Financial liabilities at amortised cost	Insurance payables	Total carrying amount
Medical savings (Note 8)	168 948	-	168 948
Trade and other payables (Note 9)	43 157	107 273	150 430
	212 105	107 273	319 378

31 December 2017

Category	Financial liabilities at amortised cost	Insurance payables	Total carrying amount
Medical savings (Note 8)	161 536	-	161 536
Trade and other payables (Note 9)	42 980	103 048	146 028
	204 516	103 048	307 564

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

25 Credit quality of financial instruments

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to information about counterparty default rates:

Trade receivables

Members do not have external credit ratings. The members are split between groups and private. During the 2018 financial period there were 12,702 (2017: 14,649) new members and 77,868 (2017: 72,151) that existed during the financial period. Of these 10,509 (83%) [2017: 12,857 (88%)] of the new members and 69,568 (89%) [(2017: 65,406 (91%)] existing members (older than a month) were not suspended during the financial period due to non-compliance of credit control rules. Suspension for new members was 2,193 (2017: 1,792) and for members that existed at the beginning of the year was 8,300 (2017:6,745).

31 December 2018

	R'000 Group members	R'000 Private members
Fully performing and not impaired (active members between 0 to 30 days)	14 246	7 445
Past due but not impaired (between 30 to 60 days)	713	49
Past due and impaired (60+ days for active members and all left members) *	4 107	2 062
	<u>19 066</u>	<u>9 556</u>

31 December 2017

	R'000 Group members	R'000 Private members
Fully performing and not impaired (active members between 0 to 30 days)	13 444	2 638
Past due but not impaired (between 30 to 60 days)	367	40
Past due and impaired (60+ days for active members and all left members) *	3 806	1 576
	<u>17 617</u>	<u>4 254</u>

* As per the credit control policy of the Scheme, only active members over 60 days and resigned members are impaired.

Cash and cash equivalents

Cash and cash equivalents are held with Nedbank and Standard Bank (Lesotho). The ratings for Nedbank as financial institutions (per Moody's rating) are P-3 for Moody's short term rating and Baa3 for their long term rating and for Standard Bank Lesotho are P-3 for short-term and Baa3 for long-term.

Financial assets

Credit ratings obtained for certain debt and money market instruments included in portfolio investments are summarised as follows:

	Rating	R'000
Instruments guaranteed by the government of the RSA	zaAAA	121 045
Debt instruments - Other	zaAA	194 912
Long-term money market instruments	zaAA	12 777
		<u>328 734</u>

The above information was based on the average credit ratings of the instruments as communicated to the Scheme by the relevant fund managers (Sanlam, Prudential & Allan Gray). The credit ratings used by the asset managers were provided by Moody's and Standard & Poor's.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

25 Credit quality of financial instruments (continued)

Financial assets (continued)

Management is satisfied with the quality and suitability of the asset managers and their performance as mandated by the Board of Trustees.

26 Financial risk management

Financial risk management strategy and policy

The Scheme's overall risk management programme focus on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments that the scheme holds to meet its obligations to its members. Certain risk management and investment decisions are made under the guidance policies approved by the Board of Trustees. The Board of Trustees provides written principles for risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and investing excess liquidity.

Based on the nature of the Medical Schemes industry, the assets are considered to be the capital of the Scheme. The Scheme ensures, on a monthly basis, that it complies with regulation 30 and annexure B of the Act. The current investment structure is that 37% of total assets are held in equity, 19% of total assets are held in bonds and the remainder held in interest bearing assets and other asset types .

The investment objectives are:

- to ensure that there are sufficient funds to meet benefit and operating expense commitments as they fall due;
- to make adequate provision for possible long-term adverse claim experience;
- to manage risks such as exposure to adverse exchange rates;
- to manage the risk of diversification and credit rating/evaluation of third parties;
- to satisfy regulatory requirements in respect of the Scheme's investments;
- and to achieve an investment return of CPI + 4% (net of costs) on funds held in the investment portfolio (excludes cash and money market fund balances) over a three year rolling period, whilst minimising the potential for capital loss over any 12 month period as well as achieving a return equal to STeFi on funds held directly in cash and money market type funds.

26.1 Financial risk factors

	2018 R'000	2017 R'000
Instruments exposed to Interest rate risks	757 748	1 187 219
Instruments exposed to Price risk	963 517	723 009

The Scheme's activities exposes it to a variety of financial risk including market risk (fair value interest rate risk, cash flow interest rate risk and price risk) credit risk and liquidity risk. The risks arise from open positions in interest rate and equity products all of which are exposed to general and specific market movements.

(i) Cash flow and fair value interest rate risk

The Scheme's investment policy is to hold the majority of its investments in interest bearing instruments. The Scheme's income and operating cash flow are therefore substantially influenced by changes in market interest rates. Investments in interest bearing instruments issued at variable rates expose the Scheme to cash flow interest rate risk (i.e. loss of income if the rates decrease and increase in income if they increase). Investments in interest bearing instruments issued at fixed rates expose the Scheme to fair value interest rate risk (i.e. movement in interest rates would have a direct effect on the fair value of the instruments).

An increase or decrease of 1% (100 basis points) in market interest rates on money market instruments and cash and cash equivalents at 31st December 2018, with all the other variables remaining constant would increase or decrease the Scheme's accumulated reserves by R 9 625 170 (2017: R 9 038 643).

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(ii) Price risk

The Scheme invests in equity of other entities that are publicly traded. The Scheme is exposed to equity security price risk because of investments held in equities. To manage its price risk the scheme diversifies its portfolio by including money market instruments and bonds. Diversification is in accordance with the limits set by the Scheme. The Scheme has investments exposed to equity price risk of R627 million (2017: R723 million).

(iii) Fair value market risk - sensitivity analysis: Cash

The sensitivity analysis is based on the movement of the STEFI index for the cash component of investments and cash and cash equivalents. The model used for % change in respect of a change in index return is the standard deviation (i.e. for every 1% assumed change in market value the index return would change by 1 standard deviation). A one percent increase in the investment return at the reporting date would have increased cash by R 9,625m in 2018 (2017: R 9,039m); an equal change in the opposite direction would have decreased cash by the same amount. These sensitivity measures are based on the average change per annum of the STEFI index over a 5 year period.

	Current accounts	Current accounts held in escrow [*]	Money market funds	Total Cash
31 December 2018	178 335	663	598 665	777 663
31 December 2017	110 580	663	792 621	903 864

	R'000		R'000		R'000	
	Index return	Adjusted closing value	Fair value impact	Accumulated funds	Fair value impact	Accumulated funds
31 December 2018	% Change					
	2.0%	793 217	15 553	1 369 571		
	1.0%	785 440	7 777	1 361 794		
	0.0%	777 663	-	1 354 018		
	-1.0%	769 887	(7 777)	1 346 241		
	-2.0%	762 110	(15 553)	1 338 465		

	R'000		R'000		R'000	
	Index return	Adjusted closing value	Fair value impact	Accumulated funds	Fair value impact	Accumulated funds
31 December 2017	% Change					
	2.0%	921 942	18 077	1 383 875		
	1.0%	912 903	9 039	1 374 837		
	0.0%	903 864	-	1 365 798		
	-1.0%	894 826	(9 039)	1 356 759		
	-2.0%	885 787	(18 077)	1 347 721		

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(iv) Currency risk

The Scheme operates in South Africa and therefore its cash flows are denominated in South African Rand (ZAR). The exposure of the Scheme's solvency to foreign currency movements was 2.00% (2017: 3.46%). This was due to the Scheme's assets being invested in bonds, cash and money market instruments on international markets. The Scheme's reserves are managed in compliance with Regulation 30, which limits offshore exposure and excludes investment in offshore equities. The Scheme's underlying investment portfolios can, and will, hold Rand hedge securities.

(v) Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt financial assets carried at fair value through other comprehensive income (FVOCI), as well as credit exposures to members, including outstanding receivables (insurance and non-insurance).

a) Risk management

Credit risk is managed on a Scheme level. For financial assets, the Scheme invests only in those financial instruments that are in compliance with Regulation 30 of the Act. Cash and financial asset transactions are limited to high credit quality institutions with high credit ratings. The Scheme manages the credit risk specifically relating to trade and other receivables, by ensuring it applies a clearly defined credit policy per category of debtor. For credit quality assessment of financial assets refer to Note 25.

In terms of the Act, contributions are required to be settled within three days after they become due. Direct paying members (DPM's) are invoiced in advance and if they are cash paying, they are suspended on day four if the contribution is not received. DPM's paying via debit order are suspended when the debit order is rejected, thereby reducing credit risk. Groups are suspended after thirty days. There is significant concentration of credit risk through exposure to the mining industry.

The Scheme's investments in debt instruments are considered to be low risk investments. The credit ratings of the investments are monitored for credit deterioration.

b) Impairment of financial assets

The Scheme has only one type of financial asset that is subject to the expected credit loss model:

Debt investments carried at fair value through other comprehensive income

Insurance and non-insurance trade & other receivables are subject to the impairment requirements of IFRS9 and the impairment losses have been included in Note 14.

While cash and cash equivalents are also subject to the impairment requirements of IFRS9, the identified impairment loss was immaterial.

Debt investments at fair value through other comprehensive income

Expected credit losses on the debt investments (fixed income investments) were measured on the general approach. The general approach of IFRS9 requires an assessment of the relevant stage. For stage 1 assets, one-year credit losses are measured. For stage 2 & 3 assets, lifetime losses are applied. An asset would normally be in stage 1 upon acquisition and move to stage 2 if there is a significant increase in credit risk.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(v) Credit risk (continued)

All of the Scheme's debt investments carried at fair value through other comprehensive income are considered to have low credit risk. All the instruments are listed on the Johannesburg Stock Exchange (JSE) and all have credit ratings. Debt investments are managed by the relevant asset managers who have confirmed that all are performing and none are credit impaired. Therefore there was no loss allowance recognised during the period. The loss allowance is recognised in profit and loss and reduces the fair value loss otherwise recognised in OCI.

Management consider "low credit risk" for listed bonds to be an investment grade credit rating with at least one major rating agency. Other instruments are considered low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Previous accounting policy for impairment of cash and cash equivalents, trade and other receivables, financial assets through OCI and available-for-sale investments

The Scheme's principal financial assets are cash and cash equivalents, trade and other receivables, financial assets through OCI and available-for-sale investments. The amounts presented in the statement of financial position are net of impairments. An impairment is made where there is an identified loss event which, based on previous experience is evidence of a reduction in the recoverability of the cash flows. Cash and available-for-sale investment transactions are limited to high credit quality financial institutions with high credit ratings. The Scheme manages the credit risk specifically relating to trade and other receivables, by ensuring it applies a clearly defined credit policy per category of debtor. For credit quality assessment of financial assets refer to Note 25.

The ageing of trade and other receivables has been included in Note 25. The provision for impairment losses has been included in Note 14.

(vi) Liquidity risk

Liquidity risk is the risk that the Scheme will not have sufficient liquid funds available to settle financial obligations as they fall due. The financial liabilities have been aged according to cash requirements to service the debt. The short-term financial liabilities of the Scheme consist of claims made by members which have not been processed by the Scheme, savings refundable to members, claims payable to members and service providers processed by the Scheme at year end. The outstanding claims provision is based on contractual agreements between the Scheme and its members and is not discounted. The Scheme performs a monthly cash forecast (managed on a daily basis) based on cash requirements to service short-term financial liabilities and payment of expenses. Prudent liquidity management implies maintaining sufficient cash and marketable securities. The availability of funding through liquid holding cash positions with various financial institutions ensures that the Scheme has the ability to fund its day-to-day operations.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(vi) Liquidity risk (continued)

31 December 2018

	R'000	R'000	R'000	R'000	R'000	R'000
LIABILITIES	Up to 1 month	1-3 Months	Between 3 months and a year	Between 1 and 5 years	Over 5 Years	Total
Current liabilities						
Outstanding claims provision (Note 7)	119 760	63 872	15 968	-	-	199 600
Medical savings (Note 8)	-	168 948	-	-	-	168 948
Trade and other payables (Note 9)	150 430	-	-	-	-	150 430
Total liabilities	270 190	232 820	15 968	-	-	518 978
Financial assets	1 141 551	60 822	216 169	111 359	191 364	1 721 265

31 December 2017

	R'000	R'000	R'000	R'000	R'000	R'000
LIABILITIES	Up to 1 month	1-3 Months	Between 3 months and a year	Between 1 and 5 years	Over 5 Years	Total
Current liabilities						
Outstanding claims provision (Note 7)	99 748	54 193	16 090	-	-	170 031
Medical savings (Note 8)	-	161 536	-	-	-	161 536
Trade and other payables (Note 9)	146 028	-	-	-	-	146 028
Total liabilities	245 777	215 728	16 090	-	-	477 595
Available-for-sale investments available for liabilities	1 016 618	66 617	280 396	357 102	189 495	1 910 228

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(vi) Liquidity risk (continued)

A significant portion of the Scheme's investments are exposed to the change in the market interest rates.

The table below summarises the Scheme's exposure to interest rate and price risks based on the maturity dates of the relevant investment.

31 December 2018

	R'000	R'000	R'000	R'000	R'000	R'000
	Up to 1 month	1-3 Months	Between 3 months and a year	Between 1 and 5 years	Over 5 Years	Total
ASSETS						
Financial assets (Note 4)	1 141 551	60 822	178 128	111 359	191 364	1 721 265
Cash and cash equivalents (Note 6)	178 998	-	-	-	-	178 998
	1 320 549	60 822	178 128	111 359	191 364	1 900 263

31 December 2017

	R'000	R'000	R'000	R'000	R'000	R'000
	Up to 1 month	1-3 Months	Between 3 months and a year	Between 1 and 5 years	Over 5 Years	Total
ASSETS						
Available-for-sale investments (Note 4)	1 016 618	66 617	280 396	357 102	189 495	1 910 228
Cash and cash equivalents (Note 6)	111 243	-	-	-	-	111 243
	1 127 861	66 617	280 396	357 102	189 495	2 021 471

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(vi) Liquidity risk (continued)

Fair value estimates

Refer to note 1.6 regarding the determination of financial assets.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year approximate their fair values.

Investment in structured entity

The exposure to investments in Investee Funds at fair value, by strategy employed, is disclosed in the following table. These investments are included in available for sale instruments in the statement of financial position.

2018

<i>Strategy</i>	<i>Number of investee funds</i>	<i>Net asset value of investee fund (range and weighted average) R'000</i>	<i>Fair value of fund's assets of investment R'000 *</i>	<i>% of net assets attributable to holders of redeemable shares **</i>
Stanlib Institutional Money Market Fund B2	865	21 885 441	98 582	0.45%
Stanlib Income Fund B2 & B6	2 698	35 276 688	-	0.00%
Stanlib Corporate Money Market Fund B4	60	38 621 000	38 041	0.10%
Stanlib Corporate Money Market Fund B2	517	38 815 290	-	0.00%
Stanlib Enhanced Yield Fund B3 (Previously Cash Plus)	880	4 508 679	-	0.00%
Allan Gray Life Stable Medical Scheme Portfolio	19	2 269 571	566 976	31.00%
Total	5 039	141 376 669	703 599	0.50%

2017

<i>Strategy</i>	<i>Number of investee funds</i>	<i>Net asset value of investee fund (range and weighted average) R'000</i>	<i>Fair value of fund's assets of investment R'000 *</i>	<i>% of net assets attributable to holders of redeemable shares **</i>
Stanlib Institutional Money Market Fund B2	500	16 870 054	4 262	0.03%
Stanlib Income Fund B2 & B6	2 398	27 634 392	5 052	0.02%
Stanlib Corporate Money Market Fund B2	449	34 150 361	162 774	0.48%
Stanlib Enhanced Yield Fund B3 (Previously Cash Plus)	967	3 687 419	24	0.00%
Allan Gray Life Stable Medical Scheme Portfolio	12	2 187 547	548 976	32.96%
Total	4 326	84 529 773	721 088	0.85%

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(vi) Liquidity risk (continued)

FAIR VALUES OF FINANCIAL ASSETS BY HIERARCHY LEVEL

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market closing prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

The fair values of other financial assets are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Fair value measurements recognised in the statement of financial position (Fair value hierarchy)

For financial assets measured at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1 fair value measurement represents those assets which are measured using unadjusted quoted market closing prices in an active market for identical assets.

At 31 December 2018, investments classified as Level 1 comprise approximately 36% (2017: 50%) of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include exchange traded prices of fixed maturities and equity securities.

Unit linked funds usually have a published price used for the previous day's transactions. Where the valuation of the instrument is based on these observable unit prices with no significant unobservable inputs and there are sufficient transactions to meet the definition of a quoted price in an active market, it is likely to be classified as Level 1. However, if an insurer calculates the liability without reference to the published price, it will fall into Level 2 or 3. Where the valuation of the liability incorporates significant inputs influenced by management's assumptions, such as tax adjustments not reflected in the observable price or underlying assets and liabilities, this is likely to be a Level 3 classification.

Listed debt securities such as Government securities and Corporate bonds may be classified as Level 1 or 2 depending on trade frequency and data availability.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(vi) Liquidity risk (continued)

FAIR VALUES OF FINANCIAL ASSETS BY HIERARCHY LEVEL (continued)

Fair value measurements recognised in the statement of financial position (Fair value hierarchy)(continued)

At 31 December 2018, investments classified as Level 2 comprise approximately 64% (2017:50%) of financial assets measured at fair value on a recurring basis. They primarily include Government and Agency securities and certain corporate debt securities, such as private fixed maturities. As market quotes generally are not readily available or accessible for these securities, their fair value measures are determined utilising relevant information generated by market transactions involving comparable securities. Inputs other than quoted prices that are observable for the assets either directly (as prices) or indirectly (derived from prices) are applied.

Observable inputs generally used to measure the fair value of securities classified as Level 2 include benchmark yields, reported secondary trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. Additional observable inputs are used when available, and as may be appropriate, for certain security types, such as pre-payment, default and collateral information for purpose of measuring the fair value of mortgage and asset-backed securities.

Level 3 fair value measurements apply inputs which are not based on observable market data. Private equity securities usually are priced based on unobservable market data and are not easily tradable and are therefore likely to be classified as Level 3. These are often based on model pricing techniques that effectively discount prospective cash flows to present value using appropriate sector-adjusted credit spreads commensurate with the security's duration, also taking into consideration issuer specific credit quality and liquidity. These valuation methodologies have been studied and evaluated by the asset manager and the resulting prices determined to be representative of exit values.

At 31 December 2018, there no instruments classified as Level 3 (2017: 0%).

31 December 2018

ASSETS

Financial assets (Note 4)

Money market instruments

Debt instruments

Equities

Unitised investments

	R'000	R'000	R'000
	Level 1	Level 2	TOTAL
Money market instruments	42 813	457 269	500 082
Debt instruments	159 083	-	159 083
Equities	396 542	-	396 542
Unitised investments	-	665 558	665 558
	598 438	1 122 827	1 721 265

31 December 2017

ASSETS

Available-for-sale investments (Note 4)

Money market instruments

Debt instruments

Equities

Unitised investments

	R'000	R'000	R'000
	Level 1	Level 2	TOTAL
Money market instruments	251 163	169 971	421 134
Debt instruments	209 263	60 437	269 700
Equities	498 307	-	498 307
Unitised investments	-	721 087	721 087
	958 733	951 495	1 910 228

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

Capital adequacy risk

The scheme's objectives when managing capital are to maintain the capital requirements of the Act, and to safeguard the scheme's ability to continue as a going concern in order to provide benefits for all the stakeholders. The risk arises that the reserves are insufficient to provide for adverse variations of actual and future expenditure. The Act requires a minimum solvency ratio of accumulated funds expressed as a percentage of gross premiums to be no less than 25%. The scheme's strategy was to maintain a solvency ratio of above the required 25% and a AA- credit rating. The scheme's solvency ratio at 31 December 2018 is 39% (2017: 46%) and the rating AA- (2017: AA-).

Legal risk

Legal risk is the risk that the Scheme will be exposed to contractual obligations which have not been provided for. At 31 December 2018 the scheme did not consider there to be any significant concentration of legal risk that had not been provided for other than contained in Note 17.

27 Rental Commitments

The scheme has the following material rental agreements as at 31 December 2018:

The agreement for the scheme's head office in Randburg, expired on 30 September 2018. A new agreement was signed effective 1 October 2018 and expiring 30 September 2021 for the premises in Randburg.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018 R'000	2017 R'000
Rental commitments	7 143	7 571
Not later than 1 year (inclusive of infrastructure)	6 417	6 436
Later than 1 year and not later than 5 years (excludes infrastructure)	726	1 135

28 Non Compliance with Medical Schemes Act and Regulations

28.1 Contributions not received within the time stipulated by the Act

Nature of the non-compliance

Section 26(7) of the Act states that: All subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becomes due.

Impact

Risk of paying claims where no contributions were received or possible bad debts as a result of not collecting the contributions on time.

Cause of the non-compliance

There were some instances noted where the contributions were not received within three days of becoming due.

Corrective course of action

Strict credit control procedures are in place to prevent loss to the Scheme. Members and employers are continuously reminded to submit payment and non-payment will result in the suspension of the account and no claims are paid until the account is brought up to date.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

28 Non Compliance with Medical Schemes Act and Regulations (continued)

28.2 Claims payments made in excess of 30 days since receipt thereof

Nature of the non-compliance

Section 59(2) of the Act states : "A medical scheme shall, in the case where an account has been rendered, subject to the provisions of this Act and the rules of the medical scheme concerned, pay to a member or a supplier of service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the medical scheme."

Impact

Members might be charged interest on the late payment of accounts by the healthcare professionals.

Cause of the non-compliance

These instances normally arise mainly due to queries on the accounts submitted and further investigation is required to ensure that claims are processed. In these exceptional cases claims were paid later than 30 days after date of submission. However in 2018, this was exacerbated by the change in managed care service providers (hospital benefit management) on 1 October 2018, which effectively delayed the processing of claims, thus causing payment to exceed 30 days.

Corrective course of action

The Scheme continuously encourages members and providers to submit the required supporting documentation as early as possible. The Scheme is continuously implementing new controls to manage the payments of claims in excess of 30 days. The change to a new service provider will be fully implemented in 2019.

28.3 Loss making options

Nature of the non-compliance

Section 33(2) of the Act states : "The Registrar shall not approve any benefit option under this section unless the Council is satisfied that such benefit option -

- (a) includes the prescribed benefits;
- (b) shall be self-supporting in terms of membership and financial performance;
- (c) is financially sound; and
- (d) will not jeopardise the financial soundness of any existing benefit option within the medical scheme."

Six of the scheme's options incurred a net deficit on the net healthcare result line.

Impact

Benefit options will not be self-sustainable.

Cause of the non-compliance

A significant contribution to the net healthcare result was that the contribution income was worse than expected. The Scheme had budgeted for a deficit which would explain why some of the options are loss making. The reason for this is that it is part of the Scheme's strategy to utilise reserves to subsidise contribution increases.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

28 Non Compliance with Medical Schemes Act and Regulations (continued)

28.3 Loss making options (continued)

Corrective course of action

The Scheme, in conjunction with the Scheme's actuaries, constantly reviews the performance of these options, and after taking all factors into consideration, contributions and benefits are adjusted accordingly on an annual basis in the normal course of business. Furthermore, the Scheme undertook a review in early 2018 to specifically address Scheme sustainability and a significant part of this work will encompass loss making options. In addition, the Scheme has implemented a project in early 2018 to improve the claims loss ratio, which has had a significant positive impact on loss making options. The Scheme expects improved performance in 2019, which will have a positive impact on loss making options.

28.4 Direct or indirect investments in other medical scheme administration companies & participating employers

Nature of the non-compliance

Section 35(8) of the Act states : "A Medical Scheme shall not invest any of its assets in the business of any other medical scheme or administrator or employer who participates in the medical scheme".

Impact

Direct equity investment holdings in holding companies of medical scheme administrators.

Cause of the non-compliance

This is as a result of the mandate given to the asset managers by the Scheme, who have the discretion to invest in any approved instrument, in terms of Regulation 30.

Corrective course of action

The Scheme has obtained exemption from the Council for Medical Schemes for this non-compliance. This exemption expires on the 1st May 2019.

28.5 Encumbered Assets

Nature of the non-compliance

Section 35(6) of the Act states : "A Medical Scheme shall not encumber its assets"

Impact

Cash and cash equivalents are encumbered as guarantees in respect of the deposit made to the South African Post Office.

Cause of the non-compliance

The deposit was required by the South African Post Office in order to conduct business with them.

Corrective course of action

The Scheme has obtained exemption from the Council for Medical Schemes for this non-compliance. This exemption expires on 31 December 2018.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

28 Non Compliance with Medical Schemes Act and Regulations (continued)

28.6 Netcare 911 capitation agreement for the provision of emergency medical services

Nature of the non-compliance

Regulation 7 defines a Designated Service Provider ("DSP") and Prescribed Minimum Benefits ("PMBs"):

Designated Service Provider means a health care provider or a group of providers selected by the medical scheme concerned as the provider or providers to provide its members diagnosis, treatment and care in respect of one or more prescribed benefit conditions;

Prescribed Minimum Benefit (PMB) condition means a condition contemplated in the Diagnosis and Treatment Pairs listed in Annexure A or any emergency medical condition;

Section 15A(1) If a medical scheme provides benefits to its beneficiaries by means of a managed health care arrangement with another person -

a. the terms of that arrangement must be clearly set out in a written contract between parties;

b. with effect from 1 January 2004, such arrangement must be with a person who has been granted accreditation as a managed health care organisation by the Council; and

c. Such arrangement must not absolve a medical scheme from its responsibility towards its members if any other party to the arrangement is in default with regard to the provisions of any service in terms of such agreement.

Impact

On or about June 2015 the Scheme entered into a contract with Netcare 911 for the provision of emergency medical services based on a capitated arrangement and in terms of the agreement Netcare was appointed as a DSP of the Scheme. CMS issued a ruling on 22 December 2017 whereby the agreement is sanctioned (not valid) by regulation 8 and 15F of the Act. The contract expired on 31 December 2017. The Scheme is contracted with Netcare 911 on a monthly basis during 2018, while a new arrangement is being formulated.

Cause of the non-compliance

a) In terms of the agreement, the Scheme required the call centre of Netcare 911 to be utilised for authorisations, which entails provisions of non-PMB's and therefore, the Scheme cannot appoint Netcare 911 as a DSP;

b) In terms of the agreement being a capitation agreement, regulation 15F prohibits the Scheme from entering into a capitation agreement unless the transfer of the risk is to an accredited managed health care organisation and Netcare 911 is not accredited.

Corrective course of action

The Scheme acknowledged the Registrar's ruling and informed CMS that it would abide by it. The Scheme engaged with the CMS with regard to the matter and a way forward is being determined on how the Scheme will implement business process changes to ensure compliance with the Act going forward.

28.7 Netcare 911 capitation agreement for the provision of international travel benefits

Nature of the non-compliance

Section 20(2) of the Act states -No medical scheme shall purchase any insurance policy in respect of any relevant health service other than to re-insure a liability in terms of section 26(1)(b).

Impact

CMS issued a ruling on 28 September 2018 whereby medical scheme benefits cannot include non-healthcare benefits such as repatriation of remains, compassionate emergency visit, and so on, in contravention of the definition of the business of a medical scheme, as referred to in section 1 of the Act.

Cause of the non-compliance

In terms of the agreement, the Scheme offers international travel benefits to members on the MediBonus and Premium Plus options, such as repatriation of remains.

Corrective course of action

The Scheme acknowledged the Registrar's ruling and informed CMS that it would abide by it. The Scheme will remove international travel benefits from its benefits in 2019 in accordance with the CMS ruling.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

28 Non Compliance with Medical Schemes Act and Regulations (continued)

28.8 Donations

Nature of the non-compliance

Section 30(1)(a) of the Act states -A medical scheme may in its rules make provision for donations to any hospital, clinic, nursing home, maternity home, infirmary or home for aged persons in the interest of all or some of its beneficiaries.

Impact

In July 2018, the Scheme made two donations in the amount of R25 000 each; the first to Boredi English Medium Primary School and the second to Thohoyandou Victim Empowerment Trust. Both of these donations were for corporate social investment purposes.

Cause of the non-compliance

The two donations were to organisations that do not meet the qualifying criteria for donations in terms of the Act.

Corrective course of action

The Scheme will only make donations to establishments that meet the qualifying criteria in terms of the Act.

28.9 Claims paid but no contribution raised

Nature of the non-compliance

The Act does not expressly state that no benefit will be paid without first receiving a contribution but the definition of the "business of a medical Scheme" infers a condition to the entitlement by stating that "the business of undertaking liability in return for a premium or contribution". Similarly, Rule 5 of the Scheme's rules infers the same condition, stating "the business of undertaking liability in return for a premium or contribution".

Impact

There were claims paid to members for which no contribution had been received in the amount of R89 838, relating to 66 claims. In most cases, the error was caused by an option change and in approximately 80% of the cases, the claim was subsequently recovered through a reversal or through the raising of a contribution.

Cause of the non-compliance

A new rule was implemented in the administration system in order to manage real time claims with regards to members with an option termination date. In some instances, this rule malfunctioned, allowing for a payment of a claim after termination date.

Corrective course of action

The malfunction has subsequently been fixed and is operating as intended. In addition, further controls have been implemented, including monthly exception reports to monitor this specific issue. The report will be generated and reviewed by the assessing department and will occur in conjunction with the post membership program to ensure that all claims after termination are processed correctly.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

29 Change in accounting policy

IFRS 9 Financial Instruments (IFRS 9)

IFRS 9 replaces the provisions of IAS 39 (Financial instruments Recognition and Measurement) that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies. The new accounting policies are set out in not 1.6 in accordance with the transition provisions in IFRS 9, comparative figures have not been restated.

Classification and measurement

The Scheme's management has assessed which business models apply to the financial assets held by the Scheme and classified its financial instruments into the appropriate IFRS 9 categories. The assessment was also approved by the Board of Trustees.

	31 December 2017		1 January 2018
	As originally presented	IFRS9	Restated
	R'000	R'000	R'000
Available-for-sale investments	1 910 228	(1 910 228)	-
Financial Assets - fair value through other comprehensive income		1 189 140	1 189 140
Financial Assets - fair value through profit or loss		721 088	721 088
	<u>1 910 228</u>	<u>-</u>	<u>1 910 228</u>

The impact of the reclassification on the Scheme's Members' Funds

	31 December 2017		1 January 2018
	As originally presented	IFRS9	Restated
	R'000	R'000	R'000
Changes in total members' funds			
Available-for-sale reserve	(208 086)	208 086	-
Fair value through other comprehensive income reserve - equity		(125 596)	(125 596)
Fair value through other comprehensive income reserve - debt		(3 350)	(3 350)
Accumulated funds		(79 140)	(79 140)
	<u>(208 086)</u>	<u>-</u>	<u>(208 086)</u>

Reclassification from available-for-sale to fair value through profit and loss

Investments in Allan Gray Life Stable Medical Scheme Portfolio (Linked Insurance Policy) and Stanlib Income Fund B2 (Money Market) were classified from available-for-sale to fair-value through profit or loss. They do not meet the IFRS 9 criteria for classification at fair value through other comprehensive income (FVOCI), because their cash flows do not represent sole payments of principal and interest.

Reclassification of equity investments from available-for-sale to FVOCI

The Scheme elected to present in OCI changes in the fair value of all its direct equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are expected to be sold in the short to medium term.